

VOLUME 16 FEBRUARY 1954 NUMBER

HB

1

072

v.16-17

1954-55

PER

COLLEGE OF COMMERCE AND
BUSINESS ADMINISTRATION

CURRENT ECONOMIC COMMENT

UNIVERSITY OF ILLINOIS

U OF I
LIBRARY

CURRENT ECONOMIC COMMENT is published quarterly by the Bureau of Economic and Business Research, College of Commerce, University of Illinois. This quarterly presents factual information and interpretive comment on economic developments, business operations, public policy, and related questions of current interest. It is available on request.

The opinions expressed in the articles are the personal views of the respective authors and not necessarily those of the College of Commerce or the University.

Address manuscripts and other communications to Bureau of Economic and Business Research, 205 David Kinley Hall, Urbana, Illinois.

V LEWIS BASSIE, *Director of Bureau*

RUTH A. BIRDZELL, *Editor of Publications*

Editorial Committee

MARVIN FRANKEL, *Executive Editor*

A. STUART HALL

NELSON D. WAKEFIELD

CONTENTS

Expanding Investment in New Housing	3
ROBERT O. HARVEY	

What Happens to the Advertising Budget When TV Is Added?	16
ROBERT H. COLE	

Trade Policy With Britain.	23
W. WOODRUFF	

Twenty-Five Years of Chain Store Taxation: A Review	32
HOWARD D. HAMILTON	

Customs Union: The Scandinavian Experience	44
FRANK MEISSNER	

A Note on Self-Service Drug Distribution	53
P. D. CONVERSE and LYNN H. STILES	

Books Reviewed:

Employment and Wages in the United States,
Woytinsky and Associates

Introduction to Malthus, Glass (ed.)

Income Stabilization for a Developing Democracy,
Millikan (ed.)

Collective Bargaining, Torff

Expanding Investment in New Housing

ROBERT O. HARVEY

Assistant Professor of Economics, University of Illinois

HOUSE BUILDING in the United States has been carried on at record rates in the postwar years and has been significant in maintaining the high level of general business activity. More than one million units were started each year during the period 1949-53. However, trends of recent months suggest that investment in new residential construction is declining. While there is no cause to expect severe business declines there are valid reasons for expecting reductions in economic activity. Some of the measures of business activity turned down in the latter part of 1953 and among them was home building. During the early months of 1953, new houses were started at a rate higher than in the corresponding months of 1952 but beginning with the month of May, 1953, housing starts declined relative to 1952 and the declines became more pronounced as the year passed. The volume of building in the fall and winter of 1953 was below the rate expected in a "million starts" year.

Reasons for Decline

Many reasons account for the reduction in the rate of house building. Not the least of these has been growing uncertainty about future economic prospects based in part on the philosophy that the boom cannot last, as well as on the recognizable downturns in business. More directly responsible was the tight mortgage market which prevailed during most of the building season of

1953. It appears that the shortage of mortgage money has been alleviated by adjustments in Federal monetary and credit policies and the re-entry into the mortgage market of many savings institutions which had curtailed real estate financing operations because mortgages had become a disproportionate part of their investment portfolios. The increased availability of mortgage funds will not ensure a resurgence of house building although it cannot flourish without a steady flow of mortgage credit obtainable on a reasonable basis. Other factors important in determining the volume of house building are building costs, availability of land, and the real improvement in house services produced by new units as opposed to existing ones.

The demand for housing in the past year has been characterized by consumers' desires to acquire improved housing services. The demand for space as such is very limited. New construction to a great extent is being demanded only if new units provide more housing services per dollar of investment than is provided by existing units. Such things as design, quality of construction, and location influence the kind of services produced by a dwelling. All this means that prospective purchasers of new housing have become more selective and are more quality conscious than they were or could be in the years immediately after the end of World War II.

Another factor to consider with respect to the prospect for home construction is the high proportion of speculative building of recent years. Perhaps one-half to two-thirds of the single-family dwellings privately started in the postwar years were located in speculative building projects. Tract housing has been popular in part because the application of mass production techniques to house building permitted the production of good houses at low cost. But two other factors help to explain the success of mass building operations. First, subdividing vacant land for resale has not been popular in the postwar period because developers found it difficult to obtain financing for the installation of streets, sewers, and sidewalks unless many houses were to be built and immediately offered for sale. Second, most of the tracts were planned so that the individual units were eligible for either FHA mortgage insurance or Veterans' Administration loan guarantees. In either case, a purchaser needed a relatively small down payment to purchase a house. The ease of financing the purchase of a tract house probably explains their popularity more than anything else. Individuals who wanted a new house or who could not find one to rent frequently found it impossible either to get construction financing, to provide the equity required for a construction loan, or to find a lot on which to build. Purchasing a tract house and thereby avoiding financing and land problems was one solution.

Prospective business declines and shifts in the nature and magnitude of the demand for housing raise doubts

about the continuation of high levels of house building. At the first sign of a weakening in general business conditions builders and real estate lenders tend to lose enthusiasm for investing in new house construction. Reductions in tract building appear to account for a large share of the recent declines in housing starts. But even if lenders are willing to continue financing speculative building there is no guarantee that tract housing will be as popular as before simply because of the shifts in the nature of the demand for housing. The level of new house building, both speculative and custom, depends in large measure upon the aggressiveness of lenders and builders in attempting to maintain demand.

During the years 1947-51 total private expenditures for residential construction ranged between 2.7 and 4.4 percent and averaged only 3.4 percent of gross national output. What can be done to stimulate investment in new housing? There are four adjustments which in combination would tend to stabilize house building activity and would probably increase private home construction as a share of gross national production. The four-point program might include: (1) increasing the efficiency of house building; (2) permitting savings institutions to engage in subdividing and building; (3) removing legal barriers to housing investment and (4) improving and standardizing construction lending procedures used by mortgage lenders. Brief reference is made to the first suggestion; the second and third are discussed at greater length; and the fourth is considered in detail.

House Building Efficiency

Housing is essentially a luxury product. It is true that shelter is a necessity but very little consumer spending for residential real estate is allocated for shelter as such. New housing competes with other luxury items and has a rather high demand elasticity. Consumers spend for those items in the luxury category which may be purchased most easily as well as most cheaply. Consequently, builders simply have to give buyers better houses for less money if high levels of construction are to be maintained and if housing is to become a larger part of national expenditures.¹ The competitive position of housing requires that members of the industry as well as public officials exert every effort to increase the efficiency of house production.

¹ A great deal of good work on improving the efficiency of house building is being done and the results of the work are readily available; therefore, only the mention of some of the most significant current sources is necessary here. Considerable thought has been given to the nature and organization of the construction industry and means for improving its weaknesses. Miles Colean and Robinson Newcomb have recently completed a careful study of the industry and made excellent recommendations for the improvement of its position in the economy. See *Stabilizing Construction* (New York: McGraw-Hill Book Company, 1952). Dr. Jack D. Rogers of the University of California carefully describes industry problems and means for coping with them in his scholarly study of the house building industry in the San Francisco Bay area. See *Flexibility in the House Building Industry: The San Francisco Bay Area Case*. Unpublished dissertation, Massachusetts Institute of Technology, 1953. The Building Research Advisory Board of the National Research Council, the Small Homes Council of the University of Illinois, the Division of Housing Research of the Housing and Home Fi-

Equity Investments for Savings Institutions

Savings institutions are in a position to direct a substantial part of the investment spending of the nation because they have at their disposal most of the free savings of individuals. Mortgages on improved real estate are typically legal investments but charters rarely include equal opportunity to finance the purchase and development of land on which house building is to take place. Some lenders may loan on land if buildings are to be erected with the proceeds of the loan but very few institutions are permitted to grant loans for the purpose of purchasing and developing land into building sites with the land pledged as security for the loan. Most land credit is secured by assets other than the land itself. Since most site development projects are not of sufficient size to warrant the sale of securities in the organized markets and most lenders are not permitted to loan directly for land development, this very important phase of residential expansion is without satisfactory access to the capital markets.

One solution is simply to permit savings institutions to lend on the security of land, but another which is even better is to permit savings institutions to make equity investments in subdivisions and building projects. Because the resources of savings institutions are not composed of large amounts of liabilities which have to be paid on demand, they

nance Agency, the many magazines on building, and materials manufacturers are constantly discovering and reporting means of improving building materials and methods and reducing building costs.

are in an excellent position to make investments which might or might not have immediate liquidity. However, an equity investment either in a subdivision or in a building project is not necessarily less liquid than a mortgage investment.² In fact, permitting a lender to invest in real estate only on a debt basis puts him in the position of sharing the risks but not the profits of the venture.

Permitting savings institutions to engage in subdividing and building would probably result in several desirable effects. First, institutional resources could be used to relieve the shortage of sites for custom construction as well as to provide subdivisions for tract building. Land development would probably be carried on more evenly and less cyclically as land development programs would tend to become long-term investment ventures as opposed to short-term speculative ventures. Third, ownership of land would tend to become concentrated in fewer hands, bringing the opportunity for improved coordination and utilization of land. Finally, the market for home ownership could be expanded through the sale of both sites and residences on land contracts with relatively low down payments.

Legal Barriers to Housing Investment

Unnecessarily stringent and confusing mechanic's lien laws dissuade many mortgage lenders from engaging in

construction financing. There is little doubt that more lenders would be willing to finance new building and that the cost of obtaining construction funds would be reduced if mechanic's lien laws were either modified or clarified. About the only way that a lender can be certain that a mortgage lien on new construction will not become junior to mechanics' liens is to prevent their creation. Adequate plans are available for safeguarding the superiority of a mortgage lien in a construction financing situation but the very necessity of following such plans deters many lenders from financing new building. The result is that investment funds are artificially diverted away from new construction. This is particularly significant in areas served by financial institutions with relatively limited resources. The smaller lending organizations frequently are not adequately staffed to give proper attention to construction financing.

If two principles were followed in mechanic's lien laws, a greater number of lenders would probably be willing to engage in financing residential building. First, the rights created by a first mortgage securing any loan granted for the purpose of financing construction should, by law, have priority over any mechanics' liens which might develop from the construction, provided that the mortgage was recorded either before or during construction and that the loan proceeds were disbursed during construction and were used to pay for services, labor, materials, or equipment employed in the building project. Second, eligibility for establishing me-

² For an excellent discussion of the problem of equity investments by financial institutions see Homer Jones, "The Flow of Savings," *Journal of Finance*, October, 1948, and January, 1949.

chanics' liens ought to be restricted to contractors or others engaged directly by the originator of the construction project. If the first principle suggested were adopted, the position of building firms and others engaged in construction would not in fact be changed, for lenders are not now willing to engage in construction financing unless they are able to establish the superiority of mortgage liens over mechanics' liens. Furthermore, in those cases in which construction loans are used to finance building, the loans are usually the principal source of funds for paying the claims of those engaged in the actual building process. Building contractors, material suppliers, and related tradesmen would actually gain from the proposed change in the lien law to the extent that the volume of new construction would be increased.

The second recommendation merely calls for the application of practices universally applied outside of the building field. In some states, Illinois for example, not only the general contractor but also his employees, subcontractors and their employees, and material suppliers may establish liens against the real estate being improved. Yet the originator of the building project usually contracts only with a general contractor or a few subcontractors and material suppliers. On what reasonable basis is it that the originator of the project should be responsible to persons other than those with whom he has direct agreements? There is no parallel for this peculiar arrangement outside the construction field. The dual responsibility of an investor in housing

both to a contractor and to his employees should be eliminated.

The adoption of these proposals with respect to mechanic's lien laws would not rid the construction financing process of its complexities but it would reduce them considerably and eliminate one barrier to the flow of institutional funds into house building.

Conservative and rigid loan terms required by charters of financial institutions as well as by established practice also impede investment in new housing. The large sums of money required to purchase real estate make mortgage financing an important determinant of the demand for housing. Downward adjustments in equity requirements and lengthening repayment periods usually stimulate the demand for real estate by broadening the market for new houses. Relatively larger sums are required for real estate purchases than for any other type of consumer good, yet there is no evidence to indicate that either short maturities or low loan-to-value ratios reduce the risks of real estate lending.³

The present philosophy of mortgage

³ The National Bureau of Economic Research has published a series of studies on mortgage financing which indicate that terms of the mortgage instrument do not determine the safety of the loan although the more liberal loans *may* be the ones least likely to default. See Raymond J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (New York: National Bureau of Economic Research, 1950); Carl F. Behrens, *Commercial Bank Activities in Urban Mortgage Financing* (New York: National Bureau of Economic Research, 1952); and soon to be published by the National Bureau of Economic Research, Edward E. Edwards, *Urban Real Estate Financing by Savings and Loan Associations*.

financing is essentially that the principal of the loan can be preserved if the terms of the loan are "conservative." Mortgage loan experience to date does not support this thesis. Furthermore, there is no support for the argument that a borrower must have a substantial equity in the property to ensure its maintenance and the borrower's good faith. It should be obvious that if this were true, all rental situations would end in disaster for the landlord.

Exactly what changes should be made in mortgage investment laws is not clear. Perhaps universal mortgage insurance is necessary. Perhaps required reserves against a mortgage portfolio or portfolio insurance would permit more liberal terms. Certainly, more flexible mortgage contracts would help to reduce loan delinquencies.⁴ However, it is doubtful that investment in new housing will grow as a part of national production until some means are provided for permitting individuals to buy houses with smaller equities than are now generally required.

Construction Financing Methods

The investment in new housing could be expanded if more lenders were willing to engage in construction financing. An undetermined amount of new construction fails to take place because financial institutions in some

areas are not willing to provide funds for new building. Notwithstanding the problems already mentioned, there are safe and dependable construction lending methods, and there are two very good reasons why lenders ought to give serious consideration to financing new building. First, it is an excellent method of developing a good mortgage portfolio. Second, construction lending can be very profitable.

The principal reason for the reluctance of some lenders to finance construction has been the so-called unusual risks of construction financing. The most obvious risk is that the project may not be completed at a reasonable total cost in a reasonable length of time. The lender's security for his advances is the unit being erected so he has uncertain security unless the structure is completed. However, in nearly all construction financing situations, the lender can minimize the risk of non-completion by making careful investigations and by exercising good judgment in granting loans.

It is true that construction financing is more risky than ordinary mortgage financing but a comparison between the two is not entirely appropriate. A construction loan is more like a commercial loan granted to a manufacturer. Given the same relative amount of expert investigation and supervision, construction loans are no more risky than commercial loans, which are typically granted without specific security. The losses on construction lending in the postwar period have been very slight and have been almost exclusively the result either of bad judgment or of lack of supervision and could have been

⁴The United States Savings and Loan League has developed an excellent type of flexible mortgage contract for use by its members. The plan is known as the Uniform Savings and Loan Plan and is proving to be popular as well as economically sound. For a description of the plan see *Special Management Bulletin*, United States Savings and Loan League, April 4, 1950.

avoided with reasonable care.⁵ More safeguards are available in construction lending than in any other kind. The lender's ability to exercise control over the use of funds and borrower actions offsets the risks of financing house building.

Investigation

Construction loan administration, however, does require certain steps not necessary in ordinary mortgage lending. These include investigating the builder who will carry forward the actual construction operations, investigating the site and the plans for the proposed structure, inspecting the project as it develops, and making disbursements to the builder and others.

Factors of primary concern with respect to the investigation of the builder are his organization, experience, and quality of previous performances. Credit reports and balance sheets are usually obtainable. Information about builders may be secured from material dealers, subcontractors, other builders, and by examining structures already completed. The ability to perform is the most important consideration in the case of the builder; in fact, the capacity to build good houses is more important to the builder than a good balance sheet. A lender should not agree to finance a construction project unless he is satisfied that the builder is capable of completing the structure within a reasonable length of time and

with satisfactory workmanship. Loans should not be granted to an individual contracting with a builder of doubtful capacity. If there is some minor question about the builder's capacity, the lender can always require a performance bond as a condition of the loan.

Property investigations are more complicated for new construction than for existing construction because of the necessity of estimating costs and determining that building codes and zoning ordinances will not be violated by the proposed unit. Lenders should exercise great care in reviewing construction cost estimates. Most experienced lenders require breakdowns of estimates showing subcontractors' bids and estimates of all labor and materials to be used in the completion of the project. The review of plans and specifications is frequently carried out by an estimating section established for that specific purpose but in smaller institutions the task is sometimes given to an independent appraiser who will check the costs and appraise the plans and specifications on a fee basis. On loans to be insured by the Federal Housing Administration or guaranteed by the Veterans' Administration, plans and specifications are reviewed and appraised by the appropriate agency to determine acceptability.

Once plans and specifications have been reviewed and determined to be satisfactory the lender can safeguard his position by requiring a contract between the builder and the prospective homeowner calling for the completion of the structure according to the plans and specifications submitted and at a specified price. Changes in the plans

⁵ For a discussion of construction loan losses see Robert O. Harvey, *Construction Financing of Single Family Homes in the Middle West, 1946-1950*. Unpublished dissertation, Indiana University, 1951, pp. 155-165.

and specifications should be permitted only with the lender's consent. These and other conditions of the loan should be set forth in a contract between the lender and the borrower whether he is the actual builder or a person having a house built.

At this point in the process the lender should determine that the sum of the ultimate owner's equity and the loan principal are great enough to cover the cost of completing the project. Many lenders require the borrower to provide a "cushion" of 10 percent of the contract price so that possible underestimates of costs might be covered. A common arrangement is for the borrower to deposit his equity with the lender giving the lender authority to disburse the deposited funds to pay bills incurred in completing the project. It is a good practice for the lender to set up for each building project an account including both the borrower's deposit and the loan principal. The borrower's funds are disbursed first and interest charged on the loan funds as they are disbursed. Of course, the borrower's equity is sometimes composed of his investment in land on which building is to take place; consequently, the project account would include only the loan proceeds plus whatever cushion might be required by the lender.

Before the loan is finally granted and the mortgage recorded the lender should determine that no work has been done or materials delivered to the site in order to prevent possible mechanics' liens preceding the mortgage lien. The site should also be surveyed to determine the exact lines of the lot

and the location of the proposed building to ensure the proper location of the structure within the boundaries of the lot and according to the requirements of zoning ordinances and deed restrictions. Site inspections are usually conducted by an employee of the lending institution but a registered surveyor is generally employed to check lot lines and plot plans.

Inspections

A critical phase of construction loan administration is the inspection of the project at appropriate intervals and the payment of funds to the builder or others participating in the actual building operations. Inspections and payouts are closely related because the payment of loan proceeds is usually geared to the progress of construction as determined by inspection.

The inspection and payout plans can influence the efficiency of the building project. Poorly planned and poorly coordinated inspection schedules can interrupt the continuity of the project and needlessly conservative payout schedules may prevent efficient material purchasing or necessitate the builder's obtaining supplementary credit which not only increases the costs of building but also compounds the legal complexities of financing.

There is no such thing as the "best" payout and inspection system because each building situation is likely to be somewhat different from every other. However, two principles must be recognized: the fewer the payouts, the greater the capital requirements of the building firm; and the more rigid

the inspection schedule, the more likely construction is to be interrupted.

Two basic types of inspection schedules are used. One requires inspection at certain stages of construction; the other calls for recurring inspection at non-scheduled intervals with the project being inspected at least once each week. Many lenders use the scheduled inspection. Both the FHA and the VA require inspections at specified stages of construction: the first when the footings and foundations are completed; the second when the building is enclosed and roofed, structural framing completed, and roughed-in plumbing, heating, and electrical work still visible; and the third and final inspection after the structure is completed and ready for occupancy. The problem with respect to this type of inspection is to coordinate the date of inspection with the time at which the project is ready. Work on a specific building may not proceed past an inspection point until the unit has been approved. If inspections may be scheduled on short notice such as one or two days, this system is satisfactory, but if appointments are required a week or more in advance as is so often the case with FHA and VA inspections delays cannot be avoided.

The recurring inspections plan is used most often by lenders heavily engaged in construction financing. These institutions usually have one or two inspectors constantly touring the projects being financed. Inspectors usually visit jobs one or more times per week and report the status of each unit. A common reporting method is for the in-

spector to state exactly how far the job has progressed in terms of physical work done and this in turn is expressed as a percentage of the total cost of completion. The irregular inspection plan is also used by some lenders who do not have independent construction loan divisions. In these circumstances inspections are made whenever the lender's work load permits. This is a desirable system provided the inspections are actually made.

Loan Disbursements

Loan disbursements usually are permitted after each inspection. The amount of funds disbursed is typically related to the cost of work done except that there is usually a minimum payment amount such as \$1,000. For example, a five-inspection payout plan might be as follows:

- (1) Fifteen percent of the total cost when the excavation footings and foundations are completed to plate level, all windows set, and rough grading completed.
- (2) Thirty-five percent additional when the house is framed and roofed, partitions set, rough floors laid, exterior frames set, house sheathed, and exterior walls covered.
- (3) Twenty-five percent additional when all wiring is roughed in, all plumbing and heating roughed in, sewers, gas, and water service in place and trenches filled, and the house plastered or walls and ceilings covered.

Five-Payment Payout Plan

Date	Amount of payment	Cost to date	Builder's investment prior to payment
(1) July 29, 1950.....	\$1,875.00	\$ 1,403.67	\$1,403.67
(2) Sept. 30, 1950.....	4,375.00	5,686.97	3,811.97
(3) Oct. 20, 1950.....	3,125.00	9,617.78	3,367.78
(4) Nov. 30, 1950.....	1,875.00	11,594.04	2,219.26
(5) Jan. 31, 1951.....	1,250.00	.....	344.04

(4) Fifteen percent additional when the house is completed and the builder files an affidavit that all bills are paid in full and submits his final accounting of all labor and materials bought and paid for during construction.

(5) The final payment of 10 percent after the time has elapsed for the filing of mechanics' liens.

The percentages are presumably approximately the same as the share of total building costs represented by the expense of completing the structure to the point of inspection except for the final 10 percent. The last payment, which is usually about the same as the builder's profit, is withheld until it is established that no mechanics' liens may be placed against the structure.

Payouts related to recurring but non-scheduled inspections usually permit payment according to the portion of work completed. If inspection reveals that 20 percent of the unit is completed, 20 percent of the total building funds could be disbursed provided that the builder is eligible for at least the minimum payment. Some lenders using this plan pay out only a part of the cost of work completed. For example, a builder might expect to obtain 80 percent of the cost of completing the

unit to the point of the last inspection.

The effects of payout plans on builder capital requirements can be illustrated by the example of an actual house building operation. The contract price was \$12,500. The actual cost of completion was \$11,594.04. The builder was paid according to the five-payment plan described earlier with the owner's equity disbursed by the lender. The builder was required, as is often the case, to show that all bills for labor, materials, and equipment used in the unit up to the time of the payout had been satisfied. The dates of disbursement, amounts of payments, building cost to date, and builder's personal investment prior to payments are shown in the tabulation.

This type of payout system usually results in the largest capital requirement for the builder. Of course, the fewer the payouts, the greater the builder's investment has to be. The stipulation that all bills be paid prior to a disbursement of loan funds is the factor which makes the capital requirements relatively high under this system. One simple modification which actually protects the lender as well as reduces the builder's investment is to require material suppliers' and subcontractors' bills to be submitted to

the lender for payment. If such a system had been followed in the case described, the builder's capital would not have exceeded \$1,200 at any time. If there had been no limitation on payouts except the cost of work completed, the builder's investment would have been limited to about \$1,000.

Disbursement methods which are not flexible can result in increasing the costs of house building because of the pricing methods of material suppliers and subcontractors. In the example, the builder purchased materials on a 2 percent discount but if he had not been able to take the discount either by using his own capital or through payouts the material costs would have been at least \$100 greater and probably would have been passed on to the purchaser in the original contract. If the builder had used a line of credit to get funds with which to pay for material purchases, the interest cost to the builder would have been passed on to the ultimate owner. Subcontractors' bids are usually submitted on the assumption that payment will be prompt, but if there are to be delays in payment the charges are usually increased by 1 to 5 percent depending on the length of the delay. If construction financing had not been available and if the house in the example had been built through credit provided by material suppliers and subcontractors until the structure was completed and a mortgage loan obtained, the cost of the house would have been from \$250 to \$300 greater. Obviously, any of the increases in costs would have been passed on to the purchaser either in

the form of a higher price or poorer quality workmanship and materials.

Flexible payout plans can also be used to reduce the actual costs of building. One lender experienced at financing construction agreed to finance a project of 600 houses of which only 50 would be in process at one time. The payout system which was arranged included a large disbursement to the builder to permit him to take advantage of discounts by making large-scale purchases of materials and millwork to be used in the project. The items were stored in a warehouse so that the lender was protected not only by the mortgage lien on the real estate under construction but also warehouse receipts on the material stored.⁶ This financing device resulted in the creation of new houses at lower costs than would otherwise have been possible.

Regardless of the type of payout plan used, all successful construction lenders have one procedure in common. No matter to whom funds are paid, the payee gives a receipt for funds received and a waiver of all rights to establish a mechanic's lien for labor performed or materials or machinery supplied for the project up to the date on which the payment is being made. If persons other than the payee are eligible to establish mechanics' liens, as is the case in the State of Illinois, the payee provides the lender with lien waivers signed by all such persons. This very simple requirement ensures that money disbursed satisfies

⁶ For a complete discussion of this case see F. Norwood Howard, "Financing a 600 Prefabricated House Project," *Magazine of Prefabrication*, November, 1953, p. 33.

claims against the property and protects the superiority of the lender's lien.

Loan Fees

The costs of administering construction loans are obviously greater than for ordinary mortgage lending; consequently, while some lenders simply charge off the extra costs of construction lending to the expense of acquiring new loans, most charge special fees for granting construction loans. The costs of administering construction loans vary among institutions according to the size and complexity of the loan programs and the legal requirements of the particular state. Most experienced construction lenders agree that out-of-pocket expenses can be covered by reasonable fees and that loan fees on speculative projects which require a minimum of investigation and administration for the individual loans make substantial contributions to net income.

Two kinds of fees are commonly used: (1) fees related to the amount loaned, and (2) fixed fees. Fees expressed as a percentage of amounts loaned are probably the most common type. Both the FHA and the VA permit lenders to charge a fee of $2\frac{1}{2}$ percent of the sum loaned for construction on mortgages to be insured or guaranteed. Some lenders vary the charges according to the type of project. Fees ranging from 1 to $1\frac{1}{2}$ percent per loan on houses in large-scale building projects may be charged as compared with 2 to $2\frac{1}{2}$ percent fees on custom construction. Another type of fee is the fixed dollar charge per thousand dollars, or fraction thereof

loaned. Such fees rarely exceed three dollars per thousand dollars loaned.

The fixed fee is illustrated by the practice of one lender who charges \$85 per loan made on houses in a tract and \$150 per loan on custom-built units.⁷ If custom units are completed within a period of nine months, \$50 is returned to the borrower.

The kinds of fees described are both reasonable and adequate. Little resistance is to be found against these fees for they are sufficient to cover the lender's costs while they pay for a service which protects the would-be homeowner as well as the lender.

Both the volume and efficiency of home building is intimately connected with the availability and techniques of construction financing. Merely the adoption of the best and proved methods of financing new building by more lenders would do much toward increasing investment in new housing, both absolutely and relatively. Furthermore, it is unlikely that housing investment can be expected to grow as a share of production regardless of the level of national income unless there is a greater willingness to finance construction on terms that permit maximum building efficiency.

Summary

The suggestions made in this paper are aimed toward inducing increased investment in new housing by making adjustments in the environment of house building and investment channels. The four-point program presented, including improving the effi-

⁷ Harvey, *op. cit.*, p. 154.

ciency of the building industry, altering investment limitations for savings institutions, eliminating legal barriers to new construction, and expanding the volume and the efficiency of funds

available for house building, is directed toward "changing the rules of the game." If these changes were made, new housing could better compete for investment funds.

What Happens to the Advertising Budget When TV Is Added?

ROBERT H. COLE

Assistant Professor of Marketing, University of Illinois

THE USE of television as an advertising medium becomes steadily more important to businessmen as set installations increase and an expanding number of VHF and UHF stations provide wider coverage of the nation. With more than 300 stations in operation, local retailers, service concerns, and financial institutions are recognizing the growing possibilities of this new medium for local institutional and "quick sale" advertising.

Prominent among the present-day local advertisers on TV are the banks, department stores, and savings and loan associations. The fact that there was an almost complete lack of detailed information on the use and application of TV by these organizations pointed to the need for some type of study to correct this deficiency. As a result, a mail-questionnaire¹ survey was conducted among the 163 banks, 126 department stores, and 104 savings and loan associations that were using television as an advertising medium in June, 1953. The active interest of these organizations in providing information on their use of TV advertising is shown by the fact that 108 (66 percent) of the banks, 61

(48 percent) of the department stores, and 46 (44 percent) of the savings and loan associations responded quickly and willingly. Personal interviews also were held with officials of a large number of these organizations to secure firsthand a detailed account of their attitudes toward and experiences with this new advertising medium. Unfortunately, there is no information available as to the views of those concerns that did not respond to the questionnaire. At the same time, there is no evidence that their use of TV varies significantly from that reported by respondents in this study.

Among the seventeen points covered in the mail questionnaire, three items were directed toward learning what happens to the advertising budget of a firm when it adds TV to its advertising program. These three points that appeared on the questionnaire are as follows:

1. Have you increased your advertising budget in order to use TV? Yes.....
No.....
2. How is your present advertising budget divided (percentage-wise) among media you use?
TV.....%
Radio.....%
Newspapers.....%
Direct Mail.....%
Billboards.....%
Other.....%
3. Do you plan to change this TV percentage in the future? Yes.....

¹In order to obtain a complete list of the TV advertisers among these types of organizations, use was made of the latest *Rorabaugh Reports on Television Advertising*. The assistance of the individual TV stations also was sought in making further additions and deletions to bring the list up-to-date as of mid-1953.

Table 1. Changes in Bank Advertising Budgets

Reply	Number of respondents classified by deposit size (In millions)							Total
	Under \$10	\$10 to \$25	\$25 to \$75	\$75 to \$150	\$150 to \$300	\$300 to \$500	Over \$500	
Budget change to use TV:								
Increased budget.....	2	12	13	22	16	9	9	83
Did not increase budget	1	5	8	3	4	1	1	23
Plan future change in TV allocation:								
Yes.....	..	5	7	3	3	1	1	20
No.....	1	6	9	10	7	5	4	42
Not known.....	2	5	4	12	11	1	5	40
Plan to increase TV percentage.....	..	3	5	2	2	..	1	13
Plan to decrease TV percentage.....	..	1	2	1	1	1	..	6

NOTE: Some banks did not answer every question.

No..... Not Known.....
 If your answer is "yes," do you intend to increase the percentage? or reduce the percentage?

Since advertising problems and policies of a small organization may vary widely from those of a large concern, respondents were asked to report total deposits as of June 30, 1953 (in the case of banks), total retail sales in 1952 (in the case of department stores), and total assets as of June 30, 1953 (in the case of savings and loan associations). Through this method, it has been possible to classify respondents into various size groupings, thus permitting more valid comparisons to be made.

Banks

Advertising agencies and media should be particularly interested in knowing that more than three times as many of the bankers who responded in this survey reported that they had increased their budgets to carry on some form of TV advertising as compared

with those who reported "no increase." This situation, as shown in Table 1, is particularly true among banks with deposits in excess of \$75 million.

Based upon questionnaires returned, it appears that there are about as many TV-using banks uncertain as to future television budget plans as there are those planning no change in their budget percentage allocation to TV. If they are contemplating a change, however, the budget appropriation for TV is more likely to be increased than reduced. A breakdown of answers received on this point is also given in Table 1.

The average 1953 advertising budget of banks using TV, according to survey replies, is divided among the various media as follows: 25 percent for TV; 12 percent for radio; 27 percent for newspapers; 7 percent for direct mail; 7 percent for billboards; and 22 percent for all other media (including car cards, motion pictures, displays, and so forth). It is interesting to compare this

Table 2. Percentage Distribution of Bank Advertising Among Media, 1953

Deposit size as of June 30, 1953 (In millions)	Number of respondents	Average of reporting banks					
		Tele- vision	Radio	News- papers	Direct mail	Bill- boards	Other
Under \$10.....	3	31%	26%	33%	3%	7%	7%
\$10-\$25.....	14	30	14	32	11	4%	9
\$25-\$75.....	16	22	8	30	7	7	26
\$75-\$150.....	24	27	12	29	7	7	18
\$150-\$300.....	19	23	11	24	4	9	29
\$300-\$500.....	8	21	15	24	7	7	26
Over \$500.....	9	22	11	21	6	8	32
Total.....	93	25	12	27	7	7	22

breakdown for banks using TV with that reported by the Financial Public Relations Association (FPRA) for all types of commercial banks (TV users as well as non-TV users).² Budget estimates for 1953, as given by the FPRA, allocate on the average 7 percent for TV, 9 percent for radio, 31 percent for newspapers, 6 percent for direct mail, 6 percent for outdoor advertising, and 41 percent for all other media.

Table 2 gives a breakdown of the division of advertising budgets among various media, as reported by banks participating in the survey. In general, it should be noted that the smaller the bank using television, the larger the percentage of its advertising budget devoted to this new medium. This is to be expected, however, in view of the fact that if a small bank decides to use TV it must allocate a substantial share of its relatively small dollar budget to be able to carry on such advertising.

With the spending of a substantial share of their advertising budgets for

TV, bankers in most instances are experiencing results that range from satisfactory to excellent. Advantages peculiar to TV advertising which most commonly result include (1) the ability to have a program and commercial in which sound, sight, and action are combined; (2) the "captive" audiences available to advertisers in those communities in which only one channel is received; (3) the often larger and different audience than that reached by other media; and (4) the personal copy effect possible. Also pointed out by bankers is the newness of TV in many areas, a situation that creates high consumer interest and attention.

Satisfaction with TV is tempered by a general objection to high costs; many bankers also find the lack of good time available for local programs, poor local talent, lack of trained technical personnel, and poor programming on the part of the stations to be definite disadvantages.

Department Stores

As in the case of banks, the number of department stores (cooperating in this survey) that reported an increase

² A strict comparison between these two sets of figures cannot be made, however, because of the uncertainty as to the exact expenses that are included under each medium.

Table 3. Changes in Department Store Advertising Budgets

Reply	Number of respondents classified by 1952 retail sales volume (In millions)							
	Under \$1	\$1 to \$2	\$2 to \$5	\$5 to \$10	\$10 to \$20	Over \$20	Not given	Total
Budget change to use TV:								
Increased budget.....	3	1	5	6	4	10	4	33
Did not increase budget	3	3	4	6	6	2	3	27
Plan future change in TV allocation:								
Yes.....	2	1	2	3	2	3	2	15
No.....	1	..	3	5	1	3	2	15
Not known.....	2	2	3	3	6	6	2	24
Plan to increase TV percentage.....	1	1	2	2	2	2	2	12
Plan to decrease TV percentage.....	1	..	..	..	..	1	..	2

NOTE: Some department stores did not answer every question.

in advertising budgets in order to use TV was larger than the group stating "no increase." Only in the over-\$20-million sales group, however, did those increasing their budgets greatly outnumber those not making any addition. A breakdown of answers received from department stores of varying retail sales volume is shown in Table 3.

The data shown also reveal that most of the department stores which are now using TV and which responded to the question relating to future plans are highly uncertain as to just what they will do with future TV budgets. More uncertainty appears to exist among stores having sales above the \$10-million mark than among those with lower volume. While uncertainty as to future plans is common among respondents, it appears that if they are planning a change, such an adjustment will probably be to increase the proportion allocated to TV.

It is interesting to note that just a short time ago some department store

executives were predicting that in the near future the bulk of their advertising dollar would be spent for television. Such a situation has not developed in the short six years of active TV operation. As a matter of observation, TV advertising has not cut into newspaper advertising to any great extent, as evidenced by the fact that the average department store budget for 1953 (as reported by respondents in this study) still allots 80 percent of its advertising dollar to newspapers, 9 percent to television, 4 percent to radio, 3 percent to direct mail, and 4 percent to all other media. As shown in Table 4, it appears that in most instances the smaller the department store the larger the percentage of its budget devoted to TV.

What advantages does the typical merchant find in TV? First, the visual demonstration; second, the personal touch. Prestige value is considered important, and so is the ability of TV to reach a different audience than that reached by other advertising media.

Table 4. Percentage Distribution of Department Store Advertising Among Media, 1953

Total retail sales in 1952 (In millions)	Number of respondents	Average of reporting stores				
		Tele- vision	Radio	News- papers	Direct mail	Other
Under \$1.....	4	22%	4%	73%	1%	...
\$1-\$2.....	3	4	5	79	10	2%
\$2-\$5.....	8	13	4	80	1	2
\$5-\$10.....	8	9	6	81	1	3
\$10-\$20.....	8	7	3	77	6	7
Over \$20.....	7	6	3	81	5	5
Sales not given.....	3	4	1	80	1	14
Total.....	41	9	4	80	3	4

These advantages of TV advertising are offset to some degree by a general objection to high costs. Many merchants, in common with the banks, are discovering a lack of good time available for local programs, a shortage of trained personnel to prepare and coordinate the advertising, and a lack of good local talent. It is important to note, however, that approximately one-third of the department store respondents in this study reported no complaints of any kind. Only eight merchants said that the lack of color was a definite objection. This reported insignificance of the color factor appears surprising, because of the apparent advantage of displaying garments, furniture, and similar items in their true colors.

Savings and Loan Associations

Of the savings and loan associations cooperating in this survey, the number of those who increased their advertising budgets to allow for TV was three times as great as the number of those not making an upward adjustment. Such a predominance of budget-in-

creasing associations was not limited to any one size grouping (based on total assets as of June 30, 1953) but appeared in the large as well as in the small categories. This situation is shown statistically in Table 5.

Almost half of the savings and loan organizations that answered the question as to planned future changes in TV allocation are intending to make "no change." Only in the \$30-to-\$40-million category are the respondents highly uncertain as to their future TV plans. Those associations that intend to change their TV percentages appear to be slightly more inclined to increase this percentage than to decrease it.

Budget allocations for 1953 to the various media by associations replying to this question averaged 31 percent to television, 28 percent to newspapers, 21 percent to radio, and 20 percent to all other media used. Considering the size of the savings and loan associations using TV, it appears that generally the larger the association the smaller the percentage of its advertising budget earmarked for TV. This is shown in detail in Table 6.

Table 5. Changes in Savings and Loan Advertising Budgets

Reply	Number of respondents classified by total asset size (In millions)						
	Under \$10	\$10 to \$14	\$14 to \$20	\$20 to \$30	\$30 to \$40	Over \$40	Total
Budget change to use TV:							
Increased budget.....	8	4	6	3	7	8	36
Did not increase budget.....	2	..	2	4	1	1	10
Plan future change in TV allocation:							
Yes.....	1	..	4	2	..	3	10
No.....	5	4	2	4	1	5	21
Not known.....	4	..	2	1	6	1	14
Plan to increase TV percentage	..	..	3	1	..	2	6
Plan to decrease TV percentage	1	..	1	1	..	1	4

NOTE: Some savings and loan associations did not answer every question.

Table 6. Percentage Distribution of Savings and Loan Advertising Among Media, 1953

Total assets as of June 30, 1953 (In millions)	Number of respondents	Average of reporting associations					
		Tele- vision	Radio	News- papers	Direct mail	Bill- boards	Other
Under \$10.....	8	40%	21%	25%	4%	1%	9%
\$10-\$14.....	4	29	30	30	6	2	3
\$14-\$20.....	7	39	19	22	7	1	12
\$20-\$30.....	7	30	20	30	5	4	11
\$30-\$40.....	7	30	14	36	4	7	9
Over \$40.....	9	21	28	25	12	3	11
Total.....	42	31	21	28	7	3	10

With their substantial budget allocations to TV, associations generally are experiencing satisfactory to excellent results. As with banks, the combination of sight, sound, and action ranks as the most important benefit currently being noted by TV-using associations. Other advantages reported by these users include larger and different audiences, better results than with other media, newness and novelty, and ability to talk with potential customers relaxing in their own homes. While objections sim-

ilar to those reported by banks and department stores are being experienced by these savings and loan organizations, it is significant to note that approximately 40 percent of the respondents had no objections of any kind.

Summary

Banks, department stores, and savings and loan associations have been prominent among the early pioneers in the use of television as an advertising medium. Based upon replies received

from these concerns that were using this new medium in June, 1953, it appears that in the great majority of cases advertising budgets have been increased in order to allow for the addition of TV advertising. As to future plans in their budget percentage allocations to TV, respondent banks in most instances either are planning no change or are uncertain as to future plans; department stores are generally indefinite about future TV budget changes; and savings and loan associations in most cases contemplate making no change. If a change is planned, however, all three groups intend to increase the TV percentage in most instances.

On the average, savings and loan associations are spending more of their advertising budget on TV than are

banks or department stores. Contrary to some expectations, TV advertising has cut relatively little into the newspaper advertising of most of the TV-using department stores. Worthy of note also is the fact that in all three groups the smaller concerns using television are devoting more of their advertising budgets to this new medium than are the larger concerns.

It should be recognized, of course, that this description of local concerns using television is highly subject to change. Television advertising is in its infancy compared with other advertising media. The prevailing situation in the TV advertising policies of firms operating on the local level may — and undoubtedly will — change decidedly in the years ahead.

Trade Policy With Britain*

W. WOODRUFF

Associate Professor of Economics, University of Illinois

IT IS NO SECRET that official Washington is at present considering a more liberal American trade policy with Western Europe, and in particular with the United Kingdom. In fact the need for such a policy has been constantly urged upon the Administration since the end of the Second World War, and the detailed arguments to support it have been set out at great length in several quasi-official American reports published during the past three years. Indeed those who have followed this matter closely in the postwar years would agree that it is unlikely that the present Commission on Foreign Economic Policy,¹ headed by Clarence B. Randall, (or the somewhat parallel

inquiry being undertaken by Senator Homer E. Capehart of Indiana, chairman of the Senate Banking and Currency Committee) can add much to what has already been said on the matter. The greatest service these committees can render will be to advise the Administration (this time in an official report) of the economic effect of specific tariff changes and—as it will require in the light of experience an extremely courageous Administration to raise the controversial tariff issue to a national political level at all—to educate the public for the changes which may lie ahead. Few Americans would dispute the need for a greater degree of economic coordination of the free world, but it is one thing to recognize this need and another thing to meet it on the floor of Congress. Whether or not the traditionally protective Republican party is bent on making the first important move towards freer trade is a matter of speculation. At least the appointment of the Randall Committee shows that the Administration is aware of the problem and it gives most Europeans the assurance that if the facts are explored and made known, Congress will not make a bolt in the opposite direction.

* The Report of the Commission on Foreign Economic Policy, which was appointed by the President to re-examine our foreign trade policies, was received after this article had been prepared for publication. Although the Commission's recommendations (which include among other things a three-year extension of the Reciprocal Trade Agreements Act and a 15 percent tariff cut over the next three years) are weighted in favor of a more liberal trade policy, it is well to add that vigorous dissent was expressed by certain members against the freer trade plan outlined in this Report. Two of these members—Chairman Daniel A. Reed (R., N.Y.) of the House Ways and Means Committee, where tariff legislation originates, and Rep. Richard M. Simpson (R., Pa.), a member of the Ways and Means group—have announced that they will present before March 6 (the scheduled deadline for the Commission's Report) "alternative recommendations and a statement of principles upon which they are based."

¹ The Commission consists of 17 members. Seven, including the chairman, were appointed by the President. Three Republicans and two Democrats represent each house of Congress.

This article neither concerns itself with predicting the future course of events nor investigating any theory (it hardly needs to be emphasized that there will be no significant change in American foreign trade policy until the economic necessity for such a change is felt by the general public, and this is not the situation in the United States today), but rather to set down certain points concerning the economies of Britain and the United States which might be worth considering at this juncture; above all to see the pressing problems of the moment against the larger background of nineteenth century developments. Certainly, whatever recommendations emerge from the present inquiries (and they can hardly differ from what has already been said so many times before)² President Eisenhower like Grover Cleveland before him is confronted with "a condition . . . not a theory," and his warm reception and commendation of the Douglas Report last year — which called specifically for a lowering of trade barriers with Britain — indicates that this "condition" is going to receive the close attention of the present Administration.³

Britain's Economic Problems Complex and Deep-seated

While it is true to say that the largest problem facing the British is the future

² Indeed it is the complaint of Representatives Reed and Simpson, in their letter of dissent to the Commission's Report, which appeared on January 23, that it "adds nothing to the views of the members of the commission previously published and well known before their selection . . ."

of world trade, it is an oversimplification of the problem to argue that if America adopted a more liberal trade policy all would be well. In fact some of Britain's problems were there long before America became the leading creditor nation of the world. They arose partly out of the intense specialization of the British economy in the nineteenth century which was accompanied not only by enormous cumulative economic advantages but also by a perilous dependence on the continuing success of certain basic industries such as textiles and coal, and also because Britain did not remain in the van of technical change and industrial progress. By 1900 she was not only out-classed in the rate of expansion of the older industries but also of certain of the newer industries as well. And coupled with the decline in the rate of expansion of British industry was a falling off in the rate of productivity. Britain could retain approximately 40 percent of the world's trade in manufactured goods (in the quinquennium 1876-1880 it was 38 percent) only if she continued to display greater industry, thrift, adaptability, enterprise, and business talent than any of her rivals. The records show that she did not do so. In the same way Britain's balance-of-payments crisis did not arise in the interwar years, any more than her productivity problem. It was there in the 1870's when exports began to decline relative to imports. Without the income received for services rendered to other

³ And his reception of the Randall Commission's Report on January 23 makes certain a clash between the Administration and Congress over the tariff issue.

nations, and the ability to live on her fat, Britain's trade gap would have appeared a generation ago.

In fact (if one were of such a mind) it is not impossible to lay many of Britain's troubles at her own door. But to take up such an attitude would be to ignore the history of the past two generations. Instead of apportioning blame it is far more important for the British and the Americans to realize — and this point is little appreciated on either side of the Atlantic — that they are living in a radically changed world, where the British (if they will achieve solvency and prosperity) will need to show even greater industry and enterprise than they have shown up to the moment; and where the Americans (if the grave responsibilities of world leadership are not to go by default) will require all the sympathetic understanding and wisdom they can muster. The rise of American industrial might during the past century, and more particularly during the past fifty years, has changed perhaps for all time the nineteenth century state of affairs.⁴ Only the communist world can resent the growth of American economic power, but the rise of this new industrial colossus has brought with it a distortion and an imbalance to the world's economy which is likely to continue for some years to come. Doubtless Britain would have had her share of economic problems if America had never been discovered.

⁴No one has done more to bring home this point than John H. Williams. See especially his *Economic Stability in a Changing World: Essays in Economic Theory and Policy* (New York: Oxford University Press, 1953).

The point being made here is that many of these problems arise from the fact that the industrial economy of the old world is no longer complementary to the primary producing economy of the new. The emergence of an almost self-sufficing American economy, able to produce half the world's manufactures (as she is doing today), has introduced a structural change in the relations between the old and the new worlds much more fundamental and much more difficult of solution than the temporary dislocation of two world wars. Indeed, the territorial division of labor and capital upon which Britain's nineteenth century prosperity was based has proved largely to be a nonrecurring phenomenon. It is not intended to imply by this that permanent disequilibrium between these two nations (particularly between the United States and the Sterling Area as a whole) is inevitable. Indeed it might well be argued that with America beginning to run an import surplus the world has seen the worst of this disequilibrium. But unless the different circumstances are reckoned with, discussions about trade policy will never get either nation very far.

The facts which must underlie any future economic adjustments are there for all to see. As for the United Kingdom, the action of crowding 50 million people into the British Isles is completed and cannot be reversed speedily. The British have no choice but to go on and make industrial specialization pay off. But they will find it increasingly difficult to earn their living in the markets of the world unless they can match — and in their straitened circumstances — surpass the productivity

standards of other industrialized nations. And it will hardly be worth their while to do so without the restoration of unhampered trade.

Conversely, while Britain's ability since the 1870's to export (relative to her imports) has declined, America's has risen. Yet as American exports since the seventies of the last century have continued to grow, her imports — relative to her national income — have fallen by almost a half. Moreover, in the field which is of particular concern to the United Kingdom — the market for manufactured goods — America's role as a buyer compared with her role as a seller has been one of declining importance. Add to this the somber spectacle of two world wars which have served to accentuate America's lead in the world economy, and the result is the dollar gap: an annual postwar American export surplus amounting in 1951-52 to about \$5 billion.

Britain at Bay

Britain's ability to improve her total dollar position over the past year — the facts are that there has been a striking improvement in her position during the past two years, and especially during the past two months — has unfortunately given many people the impression that changes in tariff policy are no longer necessary. Now while it is true that the British have moved from the grave crisis of 1951 (when she failed to balance her overseas payments by over \$1 billion) to a balance in her overseas account, and in recent months (excluding aid given by the United States for the defense effort) to the

first surplus since the war in current account transactions with the dollar area, it is also true that these results have been achieved only by immense efforts (production levels for 1952 stood about 38 percent above prewar), and in many instances by severe restrictions on goods bought from the United States. It is all too easy to forget that having emerged from the war as the world's largest debtor nation Britain averted catastrophe only by further borrowing and by directing her energy and skill to increase her exports and raise her standards of production. In this task she has been hindered by the heavy burden of rearmament (at present 12½ percent of Britain's gross national product). On the other hand — and the signs are that this phase is past — she has been helped by the temporary absence of Germany and Japan from the markets of the world.

The best that can be said for Britain is that she has managed to avert disaster. She has survived the most crucial phase of her postwar economic plight and by great industry and self-sacrifice has begun to rebuild her disrupted economy and her financial reserves. Like her army at Dunkirk she has avoided destruction. But the closer one inspects the details of Britain's overseas trade during 1953, especially how she came by a smaller surplus in her overseas payments for the first half of this year, as well as September's rise in the gross visible trade deficit from £42.2 million in August to £60 million, the more apparent it becomes that Britain's recovery is still precarious and uncer-

Table 1. Sterling Area Gold and Dollar Balance
(Millions of dollars)

Year	Net balance on current transactions	Aid (Loans and grants)	Change in reserves	Reserves at end of period
1947.....	-4,131	+3,513	- 618	2,079
1950.....	+ 805	+ 807	+1,612	3,300
1951.....	-1,176	+ 211	- 965	2,335
1952.....	- 932	+ 443	- 489	1,846
1953.....	+ 365	+ 307	+ 672	2,518

Source: Her Majesty's Stationery Office, *Annual Abstract of the Monthly Digest of Statistics*.

tain.⁵ Although the war dealt her no mortal blow — Britain still remains a rich and powerful nation — it has drained her of much of her strength. Essentially that strength can never return without a considerable revival in her export trade. If that revival is not forthcoming there can be no victory for Britain in the struggle for national solvency.

Aid, Trade, or Barricade

If American exports are to continue at anything like their present level, the export surplus (leaving aside the question of international agreement on long-term investment, the internal financial policies of the different foreign powers, and the international allocation of raw materials) can either be met by trade or aid or both. That is why — slender and uncertain as her reserves are (see Table 1) — the British Chancellor of the Exchequer has called for the opening of a new phase in the postwar commercial history of these

two great nations: "trade, not aid." The assistance which most Europeans have received from the United States since the end of the war (and are still receiving in one form or another) is readily acknowledged, but the British are fully aware that they will never prosper as long as they continue to play the role of the poor relation. That is why Mr. Butler has come forward and asked that henceforth trade should take the place of aid. And he has emphasized that this can come about only if Britain is allowed to sell her wares in the markets of the world, particularly in the dollar area.

Yet it will not do for the British to lecture the Americans on how a creditor nation should behave.⁶ Magnanimity did not lead the British to accept the freedom of trade in the nineteenth century, but enlightened self-interest. And even when the benefit to be gained from freer trade was much more

⁵ According to the provisional trade returns for December, 1953, the sober truth is that the total value of Britain's exports in 1953 were precisely what they were (£2,582 million f.o.b.) in 1952.

⁶ Nor indeed how a debtor nation (whose future depends on a growth of world trade) should behave either. It is difficult to reconcile the British call for freer trade with the recent action of the British Government in raising tariffs on a variety of fruits and vegetables.

Table 2. Principal United Kingdom Imports from the United States
(Millions of pounds sterling)

Commodity	Ten months ended October 31		
	1951	1952	1953
Manufactured articles:			
Iron and steel and manufactures.....	2.7	25.5	6.2
Nonferrous metals and manufactures.....	17.1	25.0	8.0
Machinery.....	19.3	37.5	34.2
Chemicals, etc.....	11.9	6.9	6.0
Oils, fats, and resins, manufactured.....	33.6	29.3	25.0
Paper, cardboard, etc.....	5.0	2.6	1.9
Other manufactures.....	7.2	6.4	5.8
Food:			
Grain and flour.....	53.9	36.5	31.4
Dairy produce.....	15.3	.2	1.8
Miscellaneous foods.....	15.8	13.7	5.6
Tobacco.....	31.2	13.4	33.2
Raw materials:			
Sulphur.....	4.9	5.0	2.0
Nonferrous metalliferous ores and scrap.....	1.7	1.0	1.4
Wood and timber.....	12.4	7.3	2.4
Raw cotton and waste.....	24.8	30.7	20.0
Seeds and nuts for oils, fats, etc.....	6.5	3.7	2.6
Hides and skins, undressed.....	3.5	2.2	2.5
Paper-making, etc., materials.....	2.8	2.5	.9
Rubber (synthetic).....	.8	1.3	1.0
Total (items specified above).....	270.4	250.7	191.9

Source: Her Majesty's Stationery Office, *Accounts Relating to Trade and Navigation of the United Kingdom*, October, 1953.

self-evident to the British than it is to the Americans today the change was slow in coming. Hence the historian harbors no illusions for radical change in present trade policy. Moreover the situation which faced the British a century ago and that which faces the Americans today are fundamentally dissimilar. Britain set her cap at the markets of the world whereas American industry and commerce has its eye firmly fixed on the vast market of the homeland. The position can be put quite simply: whereas foreign trade still has no major influence over the life and death of the American econ-

omy, Britain must export or perish. Yet she cannot increase her exports substantially unless there is to be a revival of trade, particularly of dollar trade. And the trouble here is that the initiative rests with the American people who do not feel the same immediate economic necessity to import those goods which the British so badly need to export to live.

And there, it will be argued by many Americans, the matter might rest. The British landed themselves in their troubles and doubtless they will get themselves out again. Certainly no American industrial interest should be

Table 3. Principal United Kingdom Exports to the United States
(Millions of pounds sterling)

Commodity	Ten months ended October 31		
	1951	1952	1953
Spirits	14.4	15.9	14.1
Nonferrous metals and manufactures	6.3	10.7	12.4
Woolen and worsted yarns and manufactures	11.2	11.5	11.0
Automobiles	6.5	10.7	10.6
Machinery	6.0	7.7	9.6
Chemicals, drugs, etc.	9.7	8.4	6.8
Iron and steel and manufactures	5.8	3.4	6.5
Wool and woolen rags	6.5	5.8	5.6
Linen piece goods	4.3	3.3	4.1
Pottery, glass, etc.	3.6	3.4	3.7
Bicycles	.8	1.3	3.0
Cotton yarns and manufactures	3.3	2.2	2.7
Cutlery, hardware, etc.	1.6	1.7	2.2
Leather and manufactures	2.6	1.8	2.1
Knitted woolen goods	1.2	1.5	1.8
Leather boots and shoes	1.5	1.3	1.5
Curios	1.5	1.8	1.5
Books	1.2	1.5	1.3
Paper, cardboard, etc.	1.3	1.0	1.1
Jute piece goods	.5	.4	.7
Agricultural tractors	.1	.3	.6
Motorcycles	.9	.8	.6
Stockings and hose of wool	1.0	.5	.6
Toys	.4	.4	.5
China clay	.5	.4	.5
Silk and artificial silk yarns and manufactures	1.1	.3	.3
Total (items specified above)	93.8	98.0	105.4

Source: Her Majesty's Stationery Office, *Accounts Relating to Trade and Navigation of the United Kingdom*, October, 1953.

impaired (by a lowering of tariff barriers) to help solve Britain's economic problems. Yet this argument ignores the growing imbalance in the world economy created over the past two generations by America's rise as an industrial power. It also ignores the fact that this condition can be rectified only by a revival of trade and by a lowering of trade barriers, and in this movement American leadership is vital. Much more important than this, the early Victorians did not look out upon a world that was divided into two camps,

where the necessity to coordinate the economic and military policies of those who stood together was so urgent and so imperative.

Moreover, what is the situation regarding British competition? As the accompanying figures (see Tables 2 and 3) show, the British buy more from America than the Americans buy from Britain, and as the fall in American tobacco sales during 1952 illustrates, they would buy more if they had the dollars to spare. With total British sales over here during 1952 (American

markets ranking second only to Australia) amounting to less than 1 percent of all United States consumer purchases, it can hardly be said that American industry is being ruined by British imports. In fact the largest British export to this country in that period was whisky⁷ (amounting to 11 percent of total United States production), followed by woollens and worsteds (4 percent of United States production) and automobiles (.7 percent of United States production).

No doubt it will still be argued that nations hiding behind tariff walls should not lecture others on the value of freer trade. Do not American trade barriers stand at an all-time low? Is not the ratio of American customs duties to the total value of imports at a much lower level than that of the United Kingdom? All this, and more, must be conceded.⁸ But it is also true that so complicated and technical has this business of tariffs and customs duties become (indeed in the inflationary conditions of the postwar period many tariffs have been lowered involuntarily) that comparison of tariff levels between different countries is an unsatisfactory method of investigation.

⁷ "Taken together," wrote Sir Evelyn Wrench in the *National Geographic Magazine* for April, 1949, "the films, the publishers of Shakespeare editions, London's Old Vic and other theaters, and the Shakespeare festival and memorabilia at Stratford-on-Avon make Shakespeare—believe it or not—Britain's biggest dollar-earning export industry."

⁸ See for instance the publications of the American Tariff League, especially *How Low are United States Tariffs?* (New York: The League, 1953).

For instance over 90 percent of Britain's customs duties are not protective of her home industries in any sense at all. They are duties (similar to American internal excise taxes) charged on the tobacco and oil consumed in the United Kingdom.

In any event the essential fact remains clear: the United States cannot replace aid with trade and yet barricade herself from foreign competition. Nor—as an expanding British economy discovered long ago—can she afford the invisible tariff of an antiquated customs procedure whereby, in the words of the American Bell Committee Report, "many goods take longer to pass through the customs than it took Columbus to discover America."

The Need for Concerted Action

The basic cause of the growing interest (on this as on the other side of the Atlantic) in the liberalization of trade is the rise of a largely self-contained American economy with an unparalleled trade surplus. It is this development which has shattered the older complementary nineteenth century trade pattern, and has called for fresh thinking in Washington and London. Indeed, as the history of the International Monetary Fund and the International Bank for Reconstruction and Development shows, it is already necessary to revise even our postwar thinking on these matters.

For Britain—although the real cure for the dollar problem extends beyond the economic relations of the United

States and the United Kingdom and a discussion of tariff barriers alone⁹ — there is one task more urgent than all others: the expansion of world trade. Against this all else shrinks into comparative insignificance. Britain will never get out of the woods by blaming America for her troubles but by doing more for herself. And the postwar history of other countries shows that Britain can still do a great deal more for herself in overcoming these obstacles to trade. But Britain will not get far unless the United States helps to provide the circumstances in which a growth of world trade is possible. Perhaps in these matters as with the convertibility of the pound sterling and other European currencies¹⁰ (the opposite side of the medal to the dollar gap), it will be thought that Britain is

only too willing to let others take the lead — though her action on October 29 in restoring trade liberalization to 75 percent of all her imports from Western Europe belies this conclusion. And unilateral action on the part of the United Kingdom — whose reserves (covering about one-sixth of sterling liabilities or less than three months' imports into the United Kingdom) are insufficient to withstand any serious fluctuation in world activity — might well mean her undoing.

While this paper has not been concerned with the forecasting of future events there is one point which needs to be made before closing. Namely — as the present investigations of the Randall Commission bear out — that Anglo-American economic cooperation will not fail for want of information. Only the absence of good will and a sympathetic understanding of each other's problems will deny to these two great trading nations the ability to work together in peace as they did in the darkest days of the war. The outcome of that coordination is fraught with profound significance for the future of the world economy.

⁹ See Howard S. Piquet, *Aid, Trade and the Tariff* (New York: Thomas Y. Crowell Co., 1953), pp. 348 et seq.

¹⁰ While the Randall Commission proposed easier access to the resources of the International Monetary Fund, they did not take up Britain's suggestions (reported to have been made by R. A. Butler in Washington last spring) regarding a stabilization loan or other financial aid to support the move toward convertibility.

Twenty-Five Years of Chain Store Taxation: A Review

HOWARD D. HAMILTON

Research Analyst, Michigan Department of Revenue

CHAIN STORE TAXES currently are in force in 17 states. By now there has been approximately a generation of experience with this tax. What does the record show? What is the significance of this levy today? This article presents a fairly detailed description of the chain store tax movement and the various statutes and rates, and an analysis of the fiscal importance and economic effects of the tax.

Most chain store tax laws were enacted in the early years of the Depression when state governments were in desperate financial straits and when anti-chain store feeling was running high. The oldest chain store tax appears to be the Delaware "branch store license" act of 1907. However, the chain store tax movement really got under way in 1927 when three South Atlantic states enacted such a levy. Each year of the succeeding decade, chain store taxes were enacted in one or more states. It has been reported that 175 chain store tax bills were introduced in the state legislatures in 1931 and 225 bills in 1933.¹ The peak was reached in 1933 when eight states adopted the tax; the final adoption was a Utah act of 1941.

Several states enacted graduated gross receipts taxes which did not refer specifically to chain stores but which

were classified as chain store taxes by observers. These statutes were held unconstitutional by the courts.² Thereupon most of the states involved substituted a license tax.

The statutes of four states explicitly authorized municipalities to impose chain store levies.³ In the early Depression years, a scattering of cities enacted such ordinances, relying upon general licensing and revenue authority. Many of the ordinances were of brief duration, being repealed or found *ultra vires*. A 1941 survey reported such ordinances in Portland, Oregon, and in 19 cities in the southeastern region.⁴

In the period 1938 to 1940, Texas Congressman Wright Patman, the arch-enemy of chain stores and monopoly, agitated vigorously for a Federal act. His bills were directed particularly at chains operating in several states. A "death sentence clause" provided that the graduated rates of from \$50 to \$1,000 should be multiplied by the number of states in which a chain operated. Thus the maximum rate for a

² Including those of Florida, Iowa, Kentucky, Minnesota, New Mexico, Vermont, and Wisconsin. See Constitutionality section, pp. 33-35.

³ Florida, North Carolina, South Carolina, and West Virginia.

⁴ Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia. Roy G. Blakey and Gladys C. Blakey, "Chain Store Taxation," 19 *Taxes* 600 (October, 1941).

¹ Note, 13 *Temple Law Quarterly* 103 (1938).

nation-wide chain would have been \$49,000 per store. After extensive hearings and publicity, the Patman bills died in committee.

If the graduated receipts tax acts are counted, 29 states have had chain store taxes.⁵ The tax has been most widespread in the South, being adopted by all southern states except Arkansas and Oklahoma, but enactments have occurred in every region of the country. The 17 states currently having such laws in effect are listed in Table 3. In two states the laws were estopped and nullified by referenda petitions and elections.⁶ The laws of four other states were held invalid⁷ and in six states the tax has expired or has been repealed.⁸

The circumstances of genesis, the rate schedules, and subsequent litigation all indicate that the tax has two purposes: to produce revenue, of course, and to "protect" the "independent" stores. Of the Michigan law the governor said:

It is apparent that the legislature recognizes that those merchants engaged in chain store operation enjoy certain economic advantages which are not available to those whose merchandising is done on the single store plan, as a result of which the latter are not in position to compete effectively. The primary purpose of this act is therefore not revenue, but rather to

use the power to tax as a means of equalizing economic opportunity.⁹

The statutes in a few states openly announced the non-revenue purpose. A Florida act of 1935 began thus:

Sec. 1. Declaration of Policy. It is hereby determined and declared that . . . due to the greater specialization in management and methods, the advantages of mass buying, of intensive selling; of more efficient utilization of capital assets, of the specialized character of their merchandising and the more efficient coverage and results obtained from their advertising, stores operated in multiple units enjoy an advantage over individually owned and operated single stores to the extent that it is fit and proper that such stores should be separately classified for the purpose of such privilege taxation; and further, that the increasing growth of chains and greater multiplication of units of stores tend to foster monopoly and to create unemployment by driving out of business their competitors who do not enjoy such advantages and that therefore the multiplication and extension of such units of chain stores should be discouraged as a matter of public policy.¹⁰

In view of the improved financial health of state governments (as compared with 1933) and the diminishing importance of the tax as a revenue source, it appears that the protection or equalization motive and inertia are the principal reasons for continuance of the tax.

Constitutionality

The constitutionality of chain store taxes was sustained by the United States Supreme Court in 1931 in a test of the Indiana law. The court reasoned

⁵ Thirty if the Virginia merchants license law of 1928 is included. For the purpose of uniform data, this survey follows the Bureau of the Census and Commerce Clearing House classifications which do not so classify the Virginia tax.

⁶ California (1935) and Utah (1942).

⁷ New Mexico (1935), Vermont (1935), Pennsylvania (1939), and Kentucky (1946).

⁸ Arizona (1933), Maine (1937), Wisconsin (1937), Minnesota (1945), Georgia (1951), and Idaho (1953).

⁹ Veto message. *House Journal*, 1933, p. 2135.

¹⁰ Ch. 16848, Laws of 1935. Also see Georgia and Louisiana statutes.

that the advantages incident to the conduct of multiple stores and the obvious differences in chain store methods of merchandising, as contrasted with those practiced in the operation of one store, warranted the separate classification for license and occupation tax purposes and justified the graduated rates.

Graduation of the tax according to the number of units operated cannot be said to be so unreasonable as to transcend the constitutional powers of the legislature. The addition of a store to an existing chain is a privilege, and an increase of the tax on all the stores for the privilege of expanding the chain cannot be condemned as arbitrary.¹¹

The Supreme Court also sustained the Louisiana law which based the classification on the number of stores in the chain everywhere.¹² But the Court held that the Florida law which based rates on the number of stores within a county as compared with the number within the state was unreasonable and violative of the 14th Amendment.¹³

Although approving sharply graduated license taxes, the Supreme Court disapproved graduated gross receipts taxes. The test case involved the Kentucky tax, which was graduated from 1/20 of 1 percent on the first \$400,000 of sales to 1 percent on sales above \$1,000,000. In distinguishing the case from those upholding the graduated license taxes, the Court noted that the license taxes had been upheld because

of the advantages incident to chain store organization and obvious differences between chain and single store operation. The graduated gross receipts tax, said the Court, did not base the classification upon different forms of organization or methods of operation. The sole basis of the classification was volume of sales, irrespective of the type of store organization. This the Court regarded as an unreasonable classification and a denial of equal protection of the laws.¹⁴ Following that case the graduated gross receipts taxes of other states were held invalid by Federal district and state courts.¹⁵

Graduated license laws have been held unconstitutional in four states—Pennsylvania, Kentucky, Georgia, and North Carolina.¹⁶ In the latter two states, however, the tax was re-enacted and upheld. The Kentucky Supreme Court ruled that graduated rates—

¹⁴ "The law arbitrarily classifies these vendors . . . solely by reference to the volume of their transactions, disregarding the absence of any reasonable relation between the chosen criterion of classification and the privilege . . . taxed. It exacts from two persons different amounts for the privilege of doing exactly similar acts, because the one has performed the act oftener than the other." *Stewart Dry Goods Co. v. Lewis*, 294 U.S. 550 (1935). If this tax was a subtle form of chain store taxation, its subtlety was its undoing.

¹⁵ *Valentine v. Great Atlantic and Pacific Tea Co.*, 12 F. Supp. 760; affirmed 299 U.S. 32 (1936); *State ex rel Adams v. Lee*, 122 Fla. 639 (1935); *Great Atlantic and Pacific Tea Co. v. Harvey*, 107 Vt. (1935); *Schuster Co. v. Henry*, 218 Wis. 506 (1935).

¹⁶ *American Stores Co. v. Boardman*, Pa. (1939); *Woolworth Co. v. Harrison*, 171 Ga. 811 (1931); *Tea Co. v. Doughton*, 196 N.C. 145 (1928); and *Tea Co. v. Maxwell*, 199 N.C. 433 (1930).

¹¹ *State Board of Tax Commissioners v. Jackson*, 283 U.S. 527 (1931).

¹² *Great Atlantic and Pacific Tea Co. v. Grosjean*, 301 U.S. 412 (1937).

¹³ *Liggett Co. v. Lee*, 288 U.S. 517 (1933).

graduated up to \$300 — were confiscatory and an unconstitutional suppression of a legitimate occupation.¹⁷ This appears to be the only instance in which chain store taxes were held invalid expressly because of the graduated rates.

Other state courts and the United States Supreme Court have upheld progressive rates — even to the point of being prohibitive. The courts have reasoned that a legislature may elect to discourage, restrict, or even eliminate chain store operation, and that use of the tax power is as legitimate an instrument of regulation as any other. Said the United States Supreme Court in the leading case, involving the West Virginia law:

When the power to tax exists, the extent

¹⁷ *Tea Co. v. Tax Commission*, 278 Ky. 367 (1939); *Reeves v. Adam Hat Stores, Inc.*, 303 Ky. 633 (1946). Three efforts of the Kentucky legislature to impose chain store taxes have been frustrated by the courts. The first effort was the graduated gross receipts tax discussed earlier. When that act fell, the legislature in 1934 enacted a graduated license levy. This act was held violative of the "principle of equality and uniformity" which the court divined from the state constitution. However, the court hinted that if the law had a regulatory purpose rather than a revenue purpose (which the court inferred), possibly it would be valid, since a different standard applied to a tax "induced by social rather than fiscal motives." So in 1940 the legislature reenacted the license tax, dutifully prefacing it with a recital of the evils and dangers of chain store monopoly and the public necessity of protection for the independent merchant. But when the act got before the supreme court in 1946, it met the same fate, the court insisting that it was still a revenue rather than a regulatory measure. In that comedy of errors, Kentucky imposed and collected three unconstitutional taxes over a 15-year span.

of the burden is a matter for the discretion of the lawmakers . . . A chain store . . . is a distinctive business species, with its own capacities and functions. Broadly speaking its opportunities and powers become greater with the number of component links; and the greater they become the more far-reaching are the consequences, both social and economic. For that reason the state may tax the large chains more heavily than the small ones, and upon a graduated basis. . . . Not only may it do this, but it may make the tax so heavy as to discourage multiplication of the units to an extent believed to be inordinate, and by the incidence of the burden develop other forms of industry.¹⁸

Nature, Scope, and Rates

The tax is imposed upon the "privilege of establishing, opening, maintaining, or operating branch or chain stores."¹⁹ Unlike many taxes on specific types of business, it generally is not tax in lieu of property or corporate franchise. It is a *privilege* tax and is "in addition to any license fees, taxes or sales or ad valorem taxes."²⁰

The general measure of the tax is the number of retail stores in the chain. However the laws of eight states include wholesale stores.²¹ Minnesota and

¹⁸ *Fox v. Standard Oil Co.*, 294 U.S. 87 (1935). The Court relied heavily on its decision of the previous term upholding prohibitive state taxes on oleomargarine, *Magnano v. Hamilton*, 292 U.S. 40 (1934). These decisions and the Indiana case were among the famous 5-4 split decisions of that period, with the regular dissents of Justices Reynolds, VanDevanter, Sutherland, and Butler.

¹⁹ Preamble to Michigan tax law. Act 265, P.A. 1933.

²⁰ *Mich. C. L.* 1948, 205.403.

²¹ Alabama, Colorado, Idaho, Indiana, Montana, North Carolina, Texas, and West Virginia. *Tax Systems*, 13th ed., pp. 227-28.

Georgia taxed mail order houses, at rates ranging up to \$10,000.²² The laws of most states exempt elevators, lumber yards, utilities, and agricultural supply firms. The most common exemption is filling stations, which appear to be taxed only in seven states.²³ Michigan is the only state which explicitly taxes chain store counters (at a lower set of rates). The Michigan law has been construed as applicable to the following situations: utility offices selling a small amount of merchandise, restaurants if selling merchandise, automobile dealers with two or more sales lots, concession stands in theaters, and to a company leasing and maintaining departments in a number of separate department stores.

A prominent characteristic of chain store taxes is that the rates are graduated and extremely progressive. The tax commences with the first or second store and ordinarily is levied at a flat sum for each additional store, a number of stores being bracketed for each successive rate increase.²⁴ The Michigan rate structure is typical, except for the separate treatment of counters (Table 1).

The Michigan maximum rate of \$250 is exceeded in four states, the Texas maximum being \$825 for each

Table 1. Michigan Chain Store Tax Rates

Number of stores	Tax per unit	Number of counters*	Tax per unit
1.....	None	1.....	None
2-3.....	\$ 10	2-10.....	\$10
4-5.....	25	11-15.....	15
6-10.....	50	16-25.....	20
11-15.....	100	26 or more..	25
16-20.....	150		
21-25.....	200		
26 or more...	250		

* Applies to counters "situated on premises where two or more business enterprises are carried on under distinct and separate ownership, maintenance, and control," e.g., a shoe firm operating in various department stores.

store in excess of 50.²⁵ However, a comparison of interstate rates on the basis of the maximums may be misleading because the brackets and bases of measurement differ. In some states the maximum rate begins at 20 stores, in others at 50 stores, and in still another at 500 stores. In applying the rate schedules, four states (Florida, Louisiana, Mississippi, and South Dakota) count stores operated everywhere, both within and without the state.

Significant variations exist in the rates of three states — Tennessee, Florida, and Delaware. The Tennessee tax is measured by the floor space in the second and additional stores at a flat rate of \$3 per 100 square feet. The Delaware law is based on the cost of goods received by retail or wholesale branches of companies having their principal places of business outside the

²² Both have been repealed.

²³ Delaware, Indiana, Iowa, Montana, North Carolina, South Carolina, and West Virginia.

²⁴ A few states have flat rates: Delaware, Florida (since June 30, 1953), and Tennessee. Rates of current laws are conveniently summarized in *Tax Systems*, 13th ed., pp. 227-28; still valid with a few exceptions noted herein.

²⁵ Colorado, \$300; Louisiana, \$550; Mississippi, \$500; Florida, \$400 prior to June 30, 1953.

state. The license fee is \$10 plus 10 cents per each \$100 worth of goods in excess of \$5,000 worth, "received for sale or distribution" by Delaware "branch stores, warehouses or distributing depots."

Florida has had the most chain store tax legislation and the most litigation. The original Florida act of 1931 imposed a license tax graduated according to the number of stores in a county and authorized municipalities to levy a similar tax up to 25 percent of the state rate. In 1933 this authorization was raised to 50 percent. In 1935 a graduated gross receipts tax was added to the graduated license. The latter feature and the graduation of rates by county were held unconstitutional.²⁶

A ½ of 1 percent tax on all gross receipts, the minimum under the progressive schedule, was upheld and apparently was collected until superseded in 1941. The vitiated gross receipts tax was replaced in 1941 by a tax on inventory at a rate of \$10 per \$1,000 of inventory over the first \$1,000 worth. This was repealed in 1949, leaving only the steeply graduated license tax. In 1953 the license fee was reduced to a flat \$10 per store. Since the latter rate is only nominal, Florida chain store taxation has come full circle.

The Utah law of 1941 contained a unique rate system. For stores in operation at the time, the rates were graduated up to a \$500 per store maximum, but stores opened or relocated after the effective date of the act were subject

Table 2. Chain Store Tax Collections, All States, 1937-52

Fiscal year	Chain store taxes		Chain store tax as percentage of all state taxes
	States	Collections	
1937.....	21	\$4,720,516	0.152
1938.....	23	7,206,000	.200
1939.....	23	5,532,000	.153
1940.....	19	6,282,000	.151
1941.....	21	4,994,440	.112
1942.....	21	4,469,212	.090
1943.....	21	5,352,348	.112
1944.....	21	4,296,304	.080
1945.....	21	4,785,166	.088
1946.....	20	4,670,169	.078
1947.....	20	4,924,769	.073
1948.....	19	5,138,426	.065
1949.....	19	5,355,391	.066
1950.....	19	5,576,638	.062
1951.....	19	4,633,912	.045
1952.....	18	5,382,410	.048

Sources: Commerce Clearing House, *Tax Systems*; Bureau of the Census, *Statistics of State Finances*.

to rates 10 times the standard rates, i.e., a rate range of from \$500 to \$5,000. The latter schedule evidently was intended to clamp the lid tightly on chain store expansion in Utah. The attorney general questioned the constitutionality of the second rate schedule, but it was never litigated because a popular referendum nullified the act prior to any enforcement.

Revenues

The data in Table 2 indicate that the high-water mark of chain store taxation was in fiscal year 1938, when 23 states collected \$7.2 million.²⁷ From that peak there was a general decline

²⁶ *Liggett Co. v. Lee*, 288 U.S. 517 (1933), and *State ex rel Adams v. Lee*, 122 Fla. 639 (1935).

²⁷ The 1938 collections were swelled by the initial Texas collection, involving 2 or 3 years of liability.

Table 3. Chain Store Taxes by States

State	First enacted	1937	1942	1947	1952
Alabama.....	1931	\$118,695	\$108,500	\$ 91,715	\$ 96,121
Colorado.....	1934	224,661	145,952	172,121	213,822
Delaware.....	1917	19,020	29,633	39,485	17,257
Florida.....	1931	993,448	917,877	1,381,750	914,400
Georgia.....	1927	.....	180,320	179,724	6,030*
Idaho.....	1933	56,357	96,695	84,889	25,916*
Indiana.....	1929	541,234	522,231	540,650	560,557
Iowa.....	1935	37,994	40,501	32,915	31,733
Kentucky.....	1930	262,140	160,101	2,021	.....
Louisiana.....	1932	25,110	140,821	126,014	141,676
Maine.....	1933	23,325	.....	.....	.....
Maryland.....	1927	105,852	65,116	59,178	50,063
Michigan.....	1933	698,544	538,096	455,582	493,379
Minnesota.....	1933	30,587	47,746	.....	.....
Mississippi.....	1930	8,667	69,643	67,960	82,212
Montana.....	1933	36,784	164,440	133,331	154,771
North Carolina.....	1927	n.a.	188,350	203,610	196,015
South Carolina.....	1928	84,775	95,590	98,986	275,115
South Dakota.....	1935	12,634	43,183	46,210	53,007
Tennessee.....	1931	50,058	88,158	79,682	158,071
Texas.....	1935	.....	739,747	1,028,584	1,760,570
West Virginia.....	1933	141,051	86,512	100,362	101,696
Wisconsin.....	1932	164,850	.....	.....	.....

* Receipts after discontinuance of tax.

n.a. Not available.

Sources: Commerce Clearing House, *Tax Systems*; Bureau of the Census, *Statistics of State Finances*.

to a low of \$4.3 million in 1944, when retailing had shrunk because of the war. Subsequently collections advanced to a postwar peak of \$5.6 million in 1950. There is a pronounced biennial wave in aggregate annual collections, suggesting that some states issue licenses biennially.

Exclusive of the biennial oscillations, the influence of the war, and some unusual collections in some years as a result of litigation, the aggregate collections have been fairly level. There have been few rate changes—the Michigan rates have not been modified since 1935. Apparently the discontinuance of the levy in some states and a few rate reductions have been about offset by chain store expansion.

It may be observed from Table 2 that although the yield has remained static, the importance of chain store taxes in the state revenue picture has declined sharply. This has occurred because chain store tax rates, like other licenses and fees, have remained static while state tax revenue has quadrupled.

In view of the depreciation of the dollar, it is evident that rates are about one-half as great as in the 1930's. This factor has combined with the general prosperity to make the burden, which in the 1930's sometimes was substantial, relatively light, or even insignificant today.

The collection figures in Table 3 show the pre-eminence of the states of Florida and Texas in the chain store

Table 4. Relative Levels of Chain Store Taxation, 1952

State	Chain store tax as percentage of total taxes	Rank	Per capita chain store tax	Rank	Average tax per store	Rank
Alabama.....	.056	15	\$0.032	16	\$ 45	15
Colorado.....	.192	7	.155	5	182	5
Delaware.....	.270	4	.204	4	46	14
Florida.....	.372	2	.309	1	283	1
Idaho.....	.061	14	.044	14	31	16
Indiana.....	.200	6	.139	6	131	6
Iowa.....	.018	18	.012	18	10	18
Louisiana.....	.047	16	.051	10	75	8
Maryland.....	.030	17	.021	17	22	17
Michigan.....	.085	9	.075	9	78	7
Mississippi.....	.071	11	.038	15	69	10
Montana.....	.366	3	.263	2	235	2
North Carolina.....	.066	13	.047	13	69	11
South Carolina.....	.253	5	.129	7	192	4
South Dakota.....	.132	8	.082	8	73	9
Tennessee.....	.083	10	.048	12	61	12
Texas.....	.377	1	.220	3	210	3
West Virginia.....	.071	11	.051	10	50	13
Mean.....	.145		.107		103	
Median.....	.084		.063		71	

Sources: Calculated from data published by the Bureau of the Census and the Commerce Clearing House. Average tax per store statistics derived from multiunit retail stores data as reported in *Census of Business: 1948, Retail Trade*, Vol. 1.

tax field. The collections in those two states have about equaled the collections in all the other states. In some years Florida and Texas collections bordered on \$2 million each. Two other states, Indiana and Michigan, collect tidy sums from this levy, about one-half million dollars each.

Because of the great variation in state populations, a comparison of collections does not clearly indicate the level of chain store taxes in the various states. Comparison of the rates is difficult and unsatisfactory, for the reasons mentioned earlier. Consequently in Table 4, per capita collections, the ratio of chain store tax to total taxes, and the average tax per store are employed to measure the relative levels of taxes in 1952. The three yardsticks

show a high correlation, most states ranking the same on two or three scales.

In per capita terms, the Florida tax was substantially higher than others, followed by Montana, Texas, and Delaware. As a percentage of total taxes, Florida, Texas, and Montana collections were nearly equal. The per capita collections in Florida were three times the mean and five times the median amounts.

The average tax per store in each state is an approximation, using the number of multiunit retail stores in the respective states as reported in the 1948 *Census of Business*. According to this calculation, the mean rate in 1952 was about \$103 per store and the median \$71 per store. This calculation shows

**Table 5. Retail Sales by Unit Types
(Percentages).**

Census year	Chains	Independents	Others
1929.....	20.3	77.6	2.1
1935.....	23.3	73.3	3.4
1939.....	21.7	74.7	3.6
1948.....	22.8	77.2	...

Sources: Bureau of the Census, *Census of Business: 1948, Retail Trade* Vol. 1, p. 17; and *Census of Business: 1939, Retail Trade, Types of Operation*, p. 5. "Others" were nonstandard types not segregated in 1948 summary.

the tremendous range in the effective rates of the various states—from an average of \$10 per store in Iowa to \$283 per store in Florida.

Michigan seems to be the typical chain store tax state, ranking at or near the median position on each scale. Other states in the middle range are South Dakota, Louisiana, and West Virginia.

Effects of Chain Store Taxes

What have been the economic effects of chain store taxes? To what degree have they achieved the objective of restricting chain development and expansion? This is very difficult to ascertain because the chain store license is only one of several taxes, and taxes are only a fraction of the many factors bearing on the fortunes of chain retailing. As one authority observed in 1937 after a study of such taxes: "In general one is impressed by the absence of correlation between taxes and trends."²⁸

²⁸ Willard Thorpe, "Effect of the Chain Store Tax," *Dun's Review*, August, 1937, quoted by Blakey and Blakey, *loc. cit.*, p. 670.

The 1948 *Census of Business* stated that:

During 1948, multiunit organizations accounted for only 9 percent of all retail stores but had about 30 percent of the total retail sales volume. The average size of a multiunit store was about \$238,000 compared to the average size of \$74,000 for all retail stores. More than 50 percent of the sales of all multiunit retail stores was made through grocery stores and through stores in the general merchandise group.²⁹

The Census data indicate that since 1929, the beginning of chain store taxes, the chains have expanded substantially; but so have the "independents." In relative terms the chains advanced from 1929 to 1935, declined somewhat by 1939, and had advanced again by 1948. Chains, defined by the Census Bureau as firms with four or more units, fared as shown in Table 5.

However, when the data are analyzed according to commodity types, it is evident that chain experience has not been uniform. Whereas the relative sales of chains in grocery, shoe, and department stores have increased greatly, the relative role of the chains has declined in other commodity types. The 1948 *Census* furnishes the comparisons shown in Table 6.

Since chains in all commodity groups have, with rare exceptions, been subject to the same chain store license rates, manifestly the tax has been a subordinate factor. The most dramatic change shown in Table 6, the decline of the chains in gasoline retailing, occurred because the gasoline companies largely

²⁹ Bureau of the Census, *Census of Business: 1948, Retail Trade*, Vol. 1, p. 17.

Table 6. Proportion of Sales Through Multiunit Organizations With 4 or More Stores, by Selected Kinds of Business

Kind of business	Percentages		
	1948	1939	1929
Grocery stores, without fresh meat.....	21	32	46
Grocery stores, with fresh meat.....	41	38	32
Eating places.....	11	14	14
Department stores.....	52	42	28
Variety stores.....	83	87	90
Men's, boys' clothing and furnishing stores	17	22	21
Family clothing stores..	30	18	27
Women's ready-to-wear stores.....	29	28	23
Shoe stores.....	48	56	38
Furniture stores.....	12	15	14
Gasoline service stations	7	10	34
Hardware stores.....	16	4	3
Liquor stores.....	31	46	..
Fuel, fuel oil, ice dealers	11	15	18
Jewelry stores.....	11	10	6
Cigar stores and stands	14	27	25

Source: Bureau of the Census, *Census of Business: 1948, Retail Trade*, Vol. I, p. 18.

discontinued direct retail operations in favor of dealer marketing outlets. The inclusion of filling stations in the chain tax laws of some states was a major reason for that policy.³⁰

The tax was a contributing factor in the development of supermarkets, the diversification of store stocks by the addition of other commodities and a consequent expansion of unit size, and an intensive effort to weed out the less profitable units in each chain. Likewise it has contributed to development of the Western Auto and Gamble-Skogram pattern in which independently owned retailers are supplied by chain wholesalers. A writer in 1939 specu-

³⁰ Blakey and Blakey, *loc. cit.*, p. 673.

Table 7. Interstate Comparison of Retail Sales of Multiunit Firms, 1948

Chain store tax states	Percent of all sales	Nontax states	Percent of all sales
Michigan	28.64	Wisconsin	26.27
Indiana	27.27	Ohio	31.14
		Illinois	35.41
Maryland	29.42	Virginia	30.20
Delaware	25.43	New Jersey	26.73
Texas	27.60	Oklahoma	26.26
Louisiana	23.00	Arkansas	18.28
South Dakota	21.64	North Dakota	17.95
Iowa	24.34	Nebraska	20.79
		Kansas	24.19
Colorado	25.43	Utah	30.77
Montana	21.18	Wyoming	20.77
Mean	25.40	Mean	25.73

Source: Derived from 1948 *Census of Business*.

lated that the tax had inhibited chain expansion into small towns and the establishment of branch department stores in suburbs.³¹ This is hardly true today.

In Table 7, the percentage of total retail sales made by multiunit firms in 10 chain store taxing states is compared with that in comparable non-chain store license states. The selected states are adjacent and, so far as possible, are of comparable population densities and income levels. The result shows little or no correlation between the tax and the relative strength of chains. The averages of the two groups are essentially the same. There are pronounced regional differences, between the rich and the poor, the rural and the urban regions of the country.

³¹ R. P. Wolff, "The Chains Adjust Themselves to State Taxation," *Dun's Review*, October, 1939, p. 22.

Conclusion

Although a majority of the states which enacted chain store taxes two decades ago still retain such a levy, chain store taxation is distinctly on the wane. Recently Georgia and Idaho abandoned it, and Florida, the former leader, reduced its rates to a nominal \$10 per store. The levy is losing its appeal in the South, where anti-chain store feeling formerly was most intense. The only prominent counter-developments have been in South Carolina and Texas. In the latter state rates were raised "temporarily" in 1950 and permanently in 1951. Henceforth Texas will be the pre-eminent chain store taxing state.

When South Carolina enacted a general sales tax in 1951, the retail license law was incorporated as the licensing section of the sales and use tax act. The effect of this was to extend the coverage to every retailer, to increase the number of licensees from about 15,000 to 43,000 (the principal addition being filling stations), and to boost the yield from \$114,000 in 1951 to \$275,000 in 1952.³²

As a revenue source the levy has been shrinking since 1938, because of the coincidence of sharp inflation and static rates. Although aggregate revenue in 1952 was higher than in 1951, on account of the Texas rate boost, it was below the 1950 level (and in cheaper dollars). A noticeable decline should occur in 1954 when the Florida rate change materializes.

³² Letter, South Carolina Tax Commission, September 14, 1953. The bulk of the yield increase would appear to stem from non-chain stores.

This is not to say that the levy is utterly insignificant as a source of revenue. Obviously it is significant in Texas, and was one of the taxes increased in 1950 when additional revenue was desired. Substantial sums also are collected in Indiana and Michigan, and formerly in Florida. Also, collection of the levy is relatively easy and inexpensive. At one time it was debatable whether the revenue justified the cost of collection and litigation, but the litigation era is past and administration is comparatively smooth.

Manifestly the decline of the tax reflects a shift in public opinion toward the chains, which in turn reflects the difference in the economic and social climate since the 1930's. Antagonism toward chain stores was one of the manifestations of economic provincialism bred by the Depression. Independent merchants have shared in the general prosperity since 1940. With the specter of bankruptcy removed, anti-chain store sentiment gradually has receded. By imitating the merchandising techniques of the chains and by organizing purchasing cooperatives, i.e., by becoming less "independent," the independent merchants have been able to flourish alongside the chains. Contemporaneously, chains have grown in popular esteem.

In view of the effective reduction in rates by 50 percent and the general prosperity, it is evident that the laws generally are not accomplishing their major purpose: the restriction of chains. In exceptional cases the tax may be a handicap, but for the flourishing chain even \$250 per outlet is "small change" today. It is dubious

whether the laws ever accomplished that purpose very effectively, although they did compel some adaptation by the chains, such as supermarket development and the leasing of filling stations to operators.

For the foregoing reasons, chain store taxes are no longer a prominent issue. There is less incentive for the chains to

push for repeal on the one hand, and less incentive to maintain them, on the other hand. This points to the conclusion that today chain store licenses are nuisance taxes, and probably will continue to decline in frequency and importance barring the advent of another serious depression.

Customs Union: The Scandinavian Experience

FRANK MEISSNER¹

It is characteristic of the past efforts for economic cooperation in the Nordic countries that the ambitious large-scale plans did not succeed. The small and timid attempts have, however, often materialized.

THORKIL KRISTENSEN²

The Setting

The European Customs Union approach to the problem of intra-European trade liberalization was first brought forward during the Paris Conference on European Economic Cooperation in the summer of 1947. United States representatives strongly supported this approach. They succeeded in inducing the group of experts, who were preparing the ECA-sponsored bilateral agreements, to consider seriously the possibilities of such a device. "The results of the experts' investigation, how-

ever, revealed the insuperable obstacles existing in Europe to a general customs union. Its recommendations amounted merely to the establishment of a limited preferential system within [the area]."³

The over-all project abandoned, attention was given to smaller sub-regional economic groupings. The Benelux plan (including Belgium, the Netherlands, and Luxemburg) was thus put into effect early in 1948. It was hoped that a complete economic union could be achieved by January, 1951, but progress was disappointingly slow.⁴ In March, 1949, France and Italy agreed on a customs union. However, the draft of the treaty was never submitted to the parliaments for ratification because the end of 1949 brought forth, partly in response to American pressure, a proposal for much broader unification, which would include not only France and Italy but also the three Benelux countries. Representatives of the five countries, the so-called Fritalux bloc, negotiated an agreement for mutual reduction of import quotas, cur-

¹ Teaching assistant, Department of Economics, University of California, Davis. The author is indebted to the editors of *Index*, (Svenska Handelsbanken, Stockholm) for having provided much factual information. Professors Lettiche and Voorhies, University of California, provided many valuable suggestions and much encouragement.

² Thorkil Kristensen, Danish Minister of Finance, "Past Experience" (Fortidens Erfaring) in the pamphlet *Nordic Customs Union* issued by the newspaper *Information*, Copenhagen, March, 1948.

At the outset, it seems necessary to clear up a point of semantics. Geographically, Scandinavia is the peninsula on which Sweden, Norway, and the northwestern part of Finland are situated. Strictly speaking it is inconsistent to refer to a regional structure including Denmark and Iceland as Scandinavia. "Nordic" is the term generally used in Denmark, Norway, Sweden, Finland, and Iceland. Yet most continental Europeans, as well as Americans, refer to the region as "Scandinavia." The author uses these terms interchangeably.

³ William A. Brown, Jr., and Redvers Opie, *American Foreign Assistance* (Washington: Brookings Institution, 1953), p. 274.

⁴ For a detailed historical analysis see: F. A. G. Keesing, "Benelux," *Quarterly Review of the Amsterdamsche Bank*, No. 92, 1951, pp. 1-18; and J. R. M. van der Brink, "Benelux," *Quarterly Review of the Amsterdamsche Bank*, No. 100, 1953, pp. 40-59.

rency convertibility, and general liberalization of trade. And again, before the pact could be ratified, the more inclusive European Payments Union was launched and made Fritalux obsolete, at least for the time being.

Simultaneously with Fritalux, Great Britain, Denmark, Sweden, and Norway, a grouping known as Uniscan, attempted a mutual liberalization of currency and capital transactions. The age-old question of a Scandinavian customs union was thus again brought into focus.

Past Experience

Scandinavian countries were often, in the past, integrated in different kinds of political and monetary unions and federations. One can point out the unions of Kalmar, Sweden-Finland, Denmark - Norway - Iceland, Norway-Sweden, and Denmark-Iceland. Most of these unions implied rather extensive economic cooperation.

The specific question of a Scandinavian customs union has been debated for more than a hundred years. It was first brought up in Denmark in the 1840's, apparently under the influence of the spectacular success of the German "Zollverein." It was discussed particularly in the first intra-Scandinavian economic conference in Göteborg in 1863.

Though much interest was shown during the early period in the economic possibilities of the project, no practical steps were taken until 1874. In that year Sweden and Norway—which had already formed a political union in 1814—concluded an economic agreement, the purpose of which was to abolish tariffs between the two coun-

tries. As may have been expected, Swedish - Norwegian trade benefited considerably from this step. Still, the agreement did not work very smoothly because there was no coordination of the external tariff systems of the two countries. This gave rise to many stresses and strains in the mutual trade relations, particularly toward the close of the century when protectionism was growing in Sweden while Norway pursued a more liberal tariff policy. The competitive advantage of Norwegian industry tended, therefore, to increase in relation to Swedish industry, which had to pay higher duties for its imported raw materials. This and other factors led to the abolition of the customs union between Sweden and Norway in 1897.⁵

As long as it lasted, this customs union formed a good potential basis for extending the intra-Scandinavian economic cooperation to Denmark. But after the turn of the century, and particularly after the dissolution of the Swedish-Norwegian political union in 1905, interest in these matters rapidly died down. The only feature of economic integration retained was the Scandinavian Currency Union, established in 1875 and subsequently abolished during World War I.

Although the unification attempts seemed futile, they led to the "Northern Countries Exception Clause" (Forbeholdsklausul), which after 1880 was included in most trade agreements entered into by Scandinavian countries.

⁵ It is interesting to note that the volume of trade between Sweden and Norway diminished significantly following abolition of the union.

This clause enabled the Scandinavian countries to grant special privileges to each other above and beyond the "most favored" agreements signed with "outsiders," i.e. non-Scandinavian countries.⁶ The clause did not become very important because England and Germany, the largest customers of Scandinavia, prevented its effective application. Nevertheless, it represented a possible embryo for an intra-Scandinavian preferential tariff system.

Another experiment in closer cooperation was started in 1930 in Oslo, Norway. The three Scandinavian countries plus Holland, Belgium, and later on, Finland agreed not to increase tariff rates applying to their mutual trade. The "Oslo Policy" required, in fact, that the countries notify each other of intended rate modifications, and that each participant be given an opportunity to express its opinion.⁷

The immediate aim of this collaboration was to check the tendency toward increasing protectionism that followed the great depression. This attempt also failed, again mainly because England and Germany, Scandinavia's most important trade partners, objected strenuously. Scandinavia "... was apparently altogether too dependent on the outside

world to be able to realize its own policy."⁸

The most successful economic cooperation has so far been realized only in times of emergency. This was particularly true during neutral Scandinavia's isolation in World War I. In World War II, the German occupation of Denmark, Norway, and Finland limited the extent of intra-Nordic trade.

Postwar Developments

During World War II, the normal trade relations between the Scandinavian countries were very largely cut off as a result of German military occupation. As soon as the war ended, a growing interest in intra-Scandinavian economic cooperation was noticeable. No concrete steps were taken, however, and interest in the idea seemed likely to fade away once more. Proposals for a Western European customs union in connection with the Marshall plan brought the idea back into the foreground. The attempts of the Benelux countries to realize a customs union were also followed with growing interest.

The question of a customs union was thus placed on the agenda of the Scandinavian Foreign Ministers' meeting in Copenhagen in August, 1947. As a result of this meeting a joint commission was set up to examine the possibilities of widening the scope of economic cooperation between the Northern countries. One of the principal tasks of the commission was to study "the question of wholly or partially abolishing the customs boundaries between our countries." At the next meeting of Foreign

⁶ "In several of the treaties, there are special reservations permitting advantages for the other Scandinavian countries, so that on this ground other countries cannot base claims for 'most favored nation' privileges." Naboth Hedin, "Scandinavian Unity," *American Swedish Monthly*, June, 1952, p. 18.

⁷ "In the negotiations of trade treaties with other countries the Scandinavians often have cooperated, showing each other, in advance as it were, their hands." *Ibid.*

⁸ Kristensen, *loc. cit.*, p. 8.

Ministers, held in Oslo on February 23-24, 1948, and attended by the Ministers of Commerce as well, the question of a customs union was one of the main points discussed. It is not clear from the statement issued after the Oslo meeting what results were achieved by the joint commission appointed by the earlier Copenhagen meeting. However, the statement mentioned the passing of a resolution to set up a permanent organ called "The Joint Northern Committee for Economic Cooperation." This Committee met in April, 1948, and placed the following four topics on its agenda:

"1. The possibilities of establishing a common Northern tariff as a preliminary step to further work towards a Northern customs union;

2. The possibilities of reducing the customs rates and limiting the quantitative trade restrictions between the Northern countries;

3. The possibilities of an extended division of labour and increased specialization between the Northern countries. In this connection the question of how to promote the development of new lines of production to supplement the economies of the Northern countries is also to be studied;

4. The possibilities of broadening the already existing cooperation in the sphere of trade policy vis-a-vis foreign countries."⁹

The delegates established a permanent executive committee and a secretariat who were to study all questions pertaining to the subject. After two years of deliberation, the first results were published. This report concluded that under present conditions it would be impossible to reach an agreement on a customs union comprising the four

Scandinavian countries. Norway seemed to be the major obstacle in this case. She feared that her protected industries could not compete with the efficient Swedish producers.

Potentialities of a Customs Union

To have any meaning, a customs union would have to bring about the abolition not only of mutual customs duties between the countries concerned but also of all quantitative regulations and exchange restrictions that are currently hampering intra-Scandinavian trade. As a long-term proposition, such a union would be of great benefit. It would foster trade between the countries and would substantially broaden the "home market" of the Scandinavian industries. A common free market with a population of approximately 15 million instead of the present very limited national markets would afford a much stronger basis for the Scandinavian economies, enabling them to reach a higher degree of specialization and enjoy the benefits of large-scale production. Production costs could thus be lowered and the competitive position of the Scandinavian countries in the world market would be strengthened. Moreover, this would enable the development of new branches of production which the limited scope of the home market had hitherto made impracticable.¹⁰

⁹ "A Scandinavian Customs Union," Reprint from Svenska Handelsbanken *Index*, March, 1948, p. 3.

¹⁰ "The production of ship's plate is a case in point. In spite of a highly extensive ship-building industry, none of the Northern countries is a sufficiently large consumer to support a plate rolling mill big enough to pay its way. In collaboration, on the other hand, it would be possible to make an economic success of such an enterprise." *Index*, loc. cit., p. 4.

A coordinated economic development policy would prevent much unnecessary waste caused by duplication of industries. This policy would be conducive to a more rational division of labor and hence would tend to remedy the serious labor shortage problems which all Scandinavian countries are currently facing.

On the negative side of the union idea one has to realize that to a great extent exports from individual Scandinavian countries consist of competing goods.¹¹ Such competition has been declared an obstacle to the creation of a tariff union, although proponents of the idea cite this circumstance as an additional motive for cooperation.

Undoubtedly the introduction of a customs union would involve certain difficulties. A complete abolition of intra-Scandinavian trade barriers would obviously embarrass certain industries which are now able to operate profitably only because of tariff protection. For military and social reasons Sweden and Norway have developed a high degree of self-sufficiency in food and fiber by extensive protection of domestic agriculture. In a free Scandinavian market they would not be able to compete with the low-cost Danish products.

Mainly for political reasons agriculture would therefore have to be excluded from the application of free-trade principles. This would greatly reduce the benefit derived from an economic union.

In the field of manufacturing similar

objections have been raised, mainly by Norwegians who feel that a Scandinavian economic union would create very serious disturbances to those domestic industries which are relatively inefficient. The effects of the war have been far more severe in Norway than in the other Scandinavian countries and reconstruction efforts were mainly concentrated on shipping and export industries. The Norwegian domestic industries still have a long way to go before they can attain the same degree of modernization and rationalization achieved by the Swedish and Danish industries. Furthermore, Norway exports mainly raw materials and semi-manufactured commodities. These goods do not have to surmount such high tariffs as finished commodities do. It is therefore believed that the Norwegian economy would not derive the same benefits from the abolition of intra-Scandinavian customs duties as the other countries, and that economic union would be more harmful than beneficial to the Norwegian economy.

These negative effects could probably be counterbalanced if Sweden and Denmark would provide the capital necessary for an intensive modernization of Norway's industries and development of her natural resources. It is doubtful that such a large-scale flow of investment capital could be realized in the foreseeable future.

Another bone of contention is the partial surrender of national sovereignty which would be demanded from each participant. A supra-national body would have to assume responsibility for certain phases of foreign policy which the tariff union would pursue on behalf of its members.

¹¹ Norway, Sweden, and Finland are all timber and pulp exporters. Although Denmark before World War II was the most important exporter of farm commodities, all countries had significant surpluses of butter and bacon as well as eggs.

The distribution of customs revenues is also likely to cause difficulties. Should intra-Scandinavian tariffs be abolished, and rates applied to foreign countries fixed at a uniform level, imports may be shifted from one country to another. This may give rise to disputes unless satisfactory criteria for allocation of revenues are worked out.

Another objection to customs union is the comparatively small volume of trade between the Scandinavian countries themselves. In peacetime, the intra-Scandinavian trade represented only about 12 to 13 percent of the aggregate foreign trade of the region. The possibilities of significantly increasing this figure are rather limited because the economies of these countries are more competitive than complementary.¹²

Shortly before the February, 1953, meeting of the Nordic Council in Copenhagen the Norwegian Foreign Office released an official statement on the question of the Scandinavian Customs Union. As diplomatic releases go, this was an exceptionally clear and unambiguous policy summary. The Foreign Office "said that the expected advantages were far from certain and that to bring about such a union also would require identical or similar tax systems. Furthermore, . . . as a preliminary condition the three nations would have to coordinate their investment and price control policies, as well as social welfare legislation and wages, including employ-

ment regulations. Finally, all restrictions on their mutual foreign exchange transactions must be canceled . . . In other words, a customs union could be effected only after a virtual political union had been completed."¹³

This declaration was in fact very much in line with the change of heart undergone at the ECA headquarters in Paris.

The ECA originally encouraged attempts to form subregional groups in Europe. It was soon recognized that this might not be consistent either with the over-all objectives of Western European integration or with regard to relations of the blocs with the outside world. At the present time it looks as if the hope of Western European integration, by means of amalgamation of small subregional groups, is more an illusion than an attainable objective.¹⁴ In other words, with Western Europe split badly enough already, why encourage partial integrations? It might serve merely to render a subsequent all-inclusive integration more difficult.

Other Integration Attempts

The "misfortunes" of the customs union idea are by no means to be interpreted as lack of cooperative spirit among the Nordic nations. It is amazing indeed to examine the extent of traditionally joint economic actions of trade unions, business and industrial organizations, scientists, and engineers of these countries.

Scandinavian consumer cooperatives have a joint purchasing office in Co-

¹² Agricultural produce accounted for 80 percent of Denmark's exports before the war. But the other Scandinavian countries are at present more or less self-supporting in food. On the other hand, Denmark's requirements for pulp and timber are already fully covered by her imports from other Scandinavian countries.

¹³ Hedén, "A New Nordic Council," *American Swedish Monthly*, April, 1953, p. 26.

¹⁴ Brown and Opie, *op. cit.*, pp. 274-276.

penhagen for imported goods. They also have shares in the well-known Luma electric bulb factory in Stockholm. A number of large commercial banks and shipping companies are closely affiliated. The most striking form of economic cooperation is the semipublicly owned Scandinavian Airlines System (SAS).¹⁵

In 1946 the Committee for Scandinavian Cooperation in Legislative Matters was established. Proposed bills are now being mutually studied and analyzed before submission to legislatures. The members try to keep abreast of repeals and enactments of laws. "Each country, of course, is still free to enact such laws as it chooses, but in many fields it has been found advantageous to maintain uniformity or at least similarity. Practical uniformity exists in laws regarding such subjects as bills of exchange, promissory notes, bank checks, purchase and sale of personal property, installment buying, conclusion and invalidation of contracts, power of attorney, insurance, issue of securities, payment of commissions, commercial agencies, commercial travelers, registration of trade marks and firm names, and . . . air traffic. Maritime laws also are practically uniform. The same is true of marriage regulations and divorce laws, and those relating to adoption of children."¹⁶

¹⁵ Denmark and Norway each own two-sevenths of the shares and Sweden owns three-sevenths. Governmental and private interests are equally represented on the Board of Directors, which consists of six members from each country.

¹⁶ Hedin, "Scandinavian Unity," *loc. cit.*, p. 30.

Efforts to harmonize judicial proceedings have been under way since 1872. Much has already been achieved.¹⁷

In February, 1953, a new Nordic Council was constituted.¹⁸ Sweden, Denmark, Norway, and Iceland became the first members. The door was left open for Finland, should she choose to join later. This most recent step toward closer Nordic integration is unique in its way. It is not an international legislative body like the United Nations, because the Council's decisions are not legally binding on the participants. It is not a subsidiary of the Council of Europe in Strasbourg, to which the Scandinavian countries already belong. Nor is it a group of government-appointed delegates like the Pan-American Conference meeting held each fifth year under the auspices of the Pan-American Union. The Council is rather a group of legislators chosen by their respective national assemblies to consult with each other on subjects of common concern. The decisions or resolutions can be submitted to the various

¹⁷ To mention a few examples: bankruptcy proceedings in one Scandinavian country covers property of the insolvent in all the others. Criteria were established concerning which country's law would apply in interstate litigations in regard to marriage, divorce, adoption and guardianship, wills and inheritances, debts of deceased persons, and administration of estates. Following World War II Denmark, Sweden, and Norway adopted uniform citizenship laws.

¹⁸ The ancestor of the Council is the Interparliamentary Union organized in 1888 for the purpose of facilitating international arbitration. The idea of a special organization of Scandinavian legislators was often discussed — particularly so prior to World War II, when many attempts were made to unify the Nordic countries for common defense.

governments or parliaments in the form of recommendations.¹⁹ The legislators, who are in close touch with the voters "back home," are constantly in inter-country contact. This should contribute toward greater Scandinavian cohesion as well as toward a purer democracy.

The Swedish and Norwegian press groups were generally skeptical about the future possibilities of the Council. The Danes were more optimistic. Among the specific subjects submitted for consideration were such things as a blueprint for a bridge across the Ore Sound, connecting Denmark and Sweden; a plan for a Nordic postal, telegraph, and telephone union; a proposal for a common Scandinavian citizenship; and a plea for systematic planning of scientific research, so as to prevent duplication.

Conspicuous by their absence were suggestions for "... revival of the monetary union, which was in effect for several decades prior to the first World War, or a customs union which has been fruitlessly debated since the second World War, or a common military defense, which likewise has been rejected as impractical."²⁰

¹⁹ "The Nordic Council, whose members represent all political parties in Denmark, Iceland, Norway, and Sweden, except the Communists . . . [held] . . . its first session . . . [between February 13 and 20, 1953, in Copenhagen]. . . the Council, under the chairmanship of Hans Hedtoft, former Premier of Denmark and leader of the Danish delegation, voted to submit to the four Parliaments a number of recommendations aimed at strengthening cooperation in the North in the fields of culture, economics, legislation, and communication." "The Quarter's History," *American Scandinavian Review*, Summer, 1953, p. 161-162.

²⁰ Hedin, "A New Nordic Council," *loc. cit.*, p. 26.

Conclusions

One is fully justified in wondering why, despite a legion of past attempts at closer Nordic integration, a Scandinavian customs union is still far from becoming a reality. Let us review some of the obstacles to such integration.

1. As of 1951 some 80 percent of the foreign trade of the Scandinavian countries was carried on with "outsiders."²¹ The advantages of enhanced commodity exchange are therefore very limited, particularly in peacetime.

2. The 17 million people in the Scandinavian bloc negotiating collectively with the outside world, would have greater economic as well as military bargaining power. This latter opportunity has been passed up for the time being. Finland is close to Russia and cannot afford to join any potentially anti-Soviet alliances. Sweden, wishfully thinking that her neutrality can again be upheld, wants to stay aloof. Denmark and Norway decided their interests would be served best by joining the North Atlantic Treaty Organization.

3. An economic integration would mean a partial surrender of sovereignty for each of the participants — a sacrifice which nations are traditionally reluctant to make.

4. Benefits of an economic integration tend to make themselves apparent over time. The cost of painful adjust-

²¹ In 1951 only 19.5 percent of the value of the total international turnover of Denmark, Sweden, Norway, and Finland was carried on inside the bloc. For the first three quarters of 1952 the figure was only 15.8 percent. Computations are based on export and import figures in *Economic Survey of Europe Since the War* (Geneva: United Nations, 1953), Table XIX, p. 259.

ments, however, carries a more immediate incidence, which is far more impressive than rosy vistas of an uncertain future.

5. Nordic countries compete in many commodities. The temptation to break away from a customs union would make enforcement extremely difficult whereas effective integration makes full compliance an absolute "must."

6. But full compliance is hardly to be

achieved without political federation. In this respect one might be more hopeful. The people of Scandinavia are so similar in language, race, culture, and general ideals of democratic government that they have been able to progress far toward informal unity and close friendship. Scandinavia thus seems to be the most outstanding illustration of what can be achieved on an entirely voluntary basis.

A Note on Self-Service Drug Distribution

P. D. CONVERSE and LYNN H. STILES

IN RECENT YEARS, retail druggists have been encountering increased competition from food stores and variety stores. A survey published in the *Progressive Grocer* shows that the percentage of grocery stores handling drugs rose from 37 percent in 1941 to 85 percent in 1951. With supermarkets developing methods of operating self-service stores and with their sales of toilet articles and drugs demonstrating that consumers will buy these goods in such stores, druggists have become increasingly interested in self-service arrangements.

A survey of self-service drug stores now in operation was recently completed in the Department of Marketing of the University of Illinois.¹ Information was obtained from secondary sources, by correspondence, and particularly by 90 personal interviews with operators of self-service drug stores situated in the Middle West, Oklahoma, and in the Pacific Coast and Rocky Mountain states. Of the 90 interviews, 69 were with independents (88 stores) and 21 with chains (4 or more stores) operating 115 stores. The survey covered 203 stores or one-half of the estimated number of self-service drug stores operating in the spring of 1952. To secure the interviews, more than 10,000 miles were traveled. Most stores of this type were located in the territory covered and in Texas. There were few

such stores along the Atlantic seaboard except in Washington, D. C., and in New Hampshire.² However, such stores are being opened rapidly in the East.

The questionnaire used in this study contained 188 questions, many of them open end. The typical interview took an hour and a half with another hour for store measurement, when a floor plan was secured.

To be considered a self-service store and included in this study a store had to have (1) a checkout stand or central wrapping counter, either supermarket or lobby style; (2) open-wall shelving; and (3) self-service islands in sections where the clerks did not serve customers beyond giving instructions, explanations, and directions to the merchandise desired. The store might have service departments for prescriptions, tobacco, fountain items, cameras and photo supplies, liquors, jewelry, records, candy, and high-priced cosmetics and toiletries. Stores using self-service displays and fixtures, but whose clerks would serve customers, were considered semi-self-service. Self-selection is similar in arrangement and operation to the typical variety store.

Self-service drug stores have had their largest growth since 1949. The number of such drug stores in 1952 was

¹ This study was made by Lynn H. Stiles, a graduate student, under the supervision of Professors Fred M. Jones and P. D. Converse. The material is summarized here by Professor Converse and the conclusion is his.

² As no interviews were held in the East, some 55 percent of the stores in the area included in the study were covered. Owing to the location of the stores, the sample was opportunistic rather than random. However, interviews were distributed among operators of different sizes, having small stores, large stores, individual stores, and chains.

estimated by the *American Druggist* at slightly over 480, but this number is considered high. *This Week* estimated the number at 1,100 but included semi-self-service stores. The number of stores meeting the conditions set for the present survey was between 360 and 400 in 1952.

The principal objections to self-service by druggists are: increased pilferage; loss of personal contact with customers; need for personal explanation of many items; loss of professional prestige; increased breakage; and belief that high-priced goods such as expensive cosmetics are not suited to this method of sale. Most of the self-service stores do not have accurate information on the amount of pilferage. The great majority of those having opinions estimate it at less than 1 percent, and many at less than $\frac{1}{2}$ of 1 percent, of sales. The articles most often pilfered are comics and magazines, toys, candy, cosmetics, and lipstick, in about that order.

All stores visited had pharmacy departments. One-half of them reported

an increase in prescription business since opening their stores or over their sales prior to changing to self-service.

As compared with service stores, self-service stores have higher sales per customer, larger sales volume in relation to investment, and larger sales volume per employee. The self-service stores conform to consumer shopping habits and are generally liked, particularly by the younger generation of consumers who are familiar with and like the self-service method. It was found that the professional atmosphere of the store did not suffer through a change to self-service. If the operator desires more personal contact with his customers, this can be secured through the prescription and other service departments.

Typical expenses of independent self-service drug stores were found to total 21.0 percent in 1951 and profit averaged 8.8 percent. Typical expenses of self-service chains amounted to 20.4 percent and profit to 8.0 percent. (See tabulation.) These figures compare with average expenses of 26.8 percent and

Typical Operating Statement of Self-Service Drug Stores

(Percentages)

	Independent	Chain
Sales.....	100.0%	100.0%
Cost of goods sold.....	70.2	71.6
Gross margin.....	29.8	28.4
Expenses:		
Wages.....	11.3%	9.9%
Advertising.....	1.8	2.1
Rent.....	2.7	2.8
Other.....	5.2	5.6
Total.....	21.0	20.4
Net profit.....	8.8	8.0
Rate of stock turnover (times per year).....	6.3	6.8
Prescription sales, percent of total sales.....	15.0	7.7
Sales per employee.....	\$27,788	\$22,638
Sales per salesperson.....	\$35,677	\$27,824

average profit of 5.8 percent for drug stores given in the 1951 Lilly report³ (principally independent service drug stores and perhaps stores with a larger-than-average proportion of prescription sales). The rates of expense and profit of independent self-service drug stores decline with an increase in sales volume — from expenses of 21.3 percent and profit of 11.1 percent for stores with sales under \$100,000 to expenses of 16.6 percent and a profit of 7.5 percent for stores with sales of over \$1,000,000. The fact that independent stores reported slightly higher average expenses than the chains is apparently due to the larger number of stores with sales under \$100,000 operated by the independents.

As sales of independent stores increase, wages decrease from 11.9 percent for stores with sales of less than \$100,000 to 8.9 percent for stores with sales of over \$1,000,000. Advertising expenses increase somewhat as sales increase (from 1.3 percent to 2.2 percent). Rent remains fairly constant at about 2.7 percent until sales pass the \$1,000,000 mark, when it increases to 3.2 percent. Apparently most of the stores of this size are in downtown locations in larger towns.

Most self-service drug stores prefer downtown locations with heavy pedestrian traffic or outlying shopping centers with other stores and parking space. About twice as many operators prefer downtown locations as prefer outlying shopping centers. Independent self-

service drug stores are found in towns of all sizes while the chains favor larger towns. Relatively few chains are located in towns with less than 20,000 population and some will not open stores in towns of less than 40,000 persons. Self-service drug stores sell to people in all income groups but most customers are from middle or low middle income families.

The average independent self-service drug store has approximately 5,200 square feet of space whereas the typical chain has 12,800 square feet. Approximately 40 percent of the space in independent stores is used for storage and 60 percent for selling, whereas the chains use 43 percent for storage and 57 percent for selling. Independents have from 25 to 100 percent of their stock on the sales floor with an average of 82 percent whereas the chains have an average of 75 percent of their stock on the sales floor.

The typical cost of equipment for a self-service drug store was \$64 per square foot of selling space for an independent and \$42 for the chain. The fountain made up 47 percent of the cost in independent stores and 38 percent in chains. The cost of fixtures was estimated to be 30 to 60 percent higher in service than in self-service stores, with most figures between 40 and 50 percent. Total cost of equipment averaged \$20,000 in independent and \$30,000 in chain self-service stores.

As with supermarkets, the proper arrangement of stores, display of goods, display of prices, and type of fixtures are important in determining the success of the store. The druggist considering a change to self-service operation

³ An annual report compiled by Eli Lilly and Company of Indianapolis from the profit and loss statements of a large number of retail drug stores.

needs to study the subject carefully and may need the assistance of an expert in making the change.

The location of goods in a self-service store should be more or less permanent. When goods are moved from one location to another it makes it difficult for customers to find them. Hence it is important in laying out a store to place the goods properly. Convenience to customers, bulkiness of goods, rate of stock turnover, danger of theft, and margin on goods should be considered in planning the layout. The following are basic rules: traffic-building goods should be placed so that traffic will be distributed in the store and not bunched in one place; related goods should be placed close together; impulse and high-margin goods should be placed in high-traffic areas.

Store layouts vary but the following are frequently found: Vitamins, rubber goods, sickroom needs, first aid goods, patent and proprietary medicines, ointments, and the like are usually placed in the rear of the store near the prescription department so that the pharmacist can answer questions about them. Pills may be located here or on a table near the checkout counter to secure better display. High-traffic articles like tobacco and candy are usually placed near the entrance as customers do not like to walk to the rear of the store for them. The photo department is often placed nearby. Fishing tackle is often placed in the lobby. Cosmetics and toiletries carry high grosses and are frequently located just inside the turnstile. Toothpastes and powders, shampoos, and shaving goods are related to toiletries and may be nearby.

This enables the cashier to guard such small items from theft. For stores without turnstiles they are usually placed on the right-hand side because people tend to turn right on entering a store. Loss leaders, foods, soaps, household cleaners, paper goods, scarce goods, farm goods, and lawn goods are commonly placed in the rear of the store to pull customers to the back or because they are bulky or unsightly. Post office substations and stations where utility bills may be paid are located in the rear for the same reason. Impulse goods should be placed where the traffic passes and therefore should be displayed near the front or in the central part of the store. Goods bought primarily by men should be placed as near the front of the store as possible.

Some stores have two entrances, one from the street and one from the parking lot. In such stores most customers enter from the parking lot so the prescription department is located next to the street and the cosmetics and toilet articles near the parking lot entrance.

Many drug stores are too small to profit greatly by self-service. It is thought that a great many of these will introduce more self-selection or adopt semi-self-service. Some people in the trade feel that many small drug stores will go out of business as more of the drug trade is concentrated in decentralized shopping centers with adequate parking space, in supermarkets, in supermarket-type drug stores with their own parking lots, and in stores in suburban professional centers.

Seventy percent of the independent stores giving information said that their prices were the same as under the serv-

ice method of operation and 30 percent reported lower prices. On the other hand, 70 percent of the chains reported lower prices than in service stores. Resale price maintenance was given by many of the independents and by one-fifth of the chains as the reason for having the same prices as service stores.

This study was especially concerned with operating methods and did not probe deeply into prices in various types of stores. However, if self-service drug stores continue to grow, as seems probable, one wonders at the future of price competition and future adherence to resale prices set for the benefit of the service druggists. A recent visit was

made to a retailer-owned grocery wholesale house which had a markup of 7 percent on drug and toilet articles, and this included marking the prices on individual items. With patronage dividends the markup appears to be under 6 percent. Resale prices gave the retail grocers markups much larger than their average and "they like it." It is granted that this is a very efficiently operated house and that many grocers do not get their goods as cheaply. Yet with the super-drug store entering the field and supermarkets selling many of the same goods, it seems a safe guess that more price competition is to be expected.

Books Reviewed

Employment and Wages in the United States. By W. S. Woytinsky and Associates (New York: Twentieth Century Fund, 1953, pp. xxxii, 777. \$7.50)

This book represents one of the most ambitious efforts ever undertaken to analyze in a single volume the wide range of subjects encompassed by the labor market. That it could be undertaken only by a research organization with the financial resources of the Twentieth Century Fund is indicated by the sheer physical size of the work and the vast array of statistical compilations extending over 777 double-columned pages and including 242 tables and 86 figures. Supporting evidence in the appendix alone requires 230 pages. The work covers not only employment and wages but labor relations law, social security, trade union history, and numerous other subjects. The study was prepared by the regular research staff of the Fund with the aid of 16 outside contributors, some of whom are recognized authorities in their respective fields. The factual findings are summarized and evaluated at the end of the volume by a special committee made up of prominent economists and labor and management representatives.

A review of the scope of this volume is in itself a considerable task. Part One is concerned with wages — “theory, trends and outlook.” The material on wage theory is brief and highly selective. The views of only six economists beginning with Adam Smith and ending with Pigou are sum-

marized. This is followed by five descriptive chapters on trends of production, national income, wages, and hours. A chapter on productivity and wages prepared by W. Duane Evans of the United States Bureau of Labor Statistics, though offering little that is new, is nevertheless an exceedingly provocative and carefully reasoned analysis concluding with the following statement with which economists will agree: “As the key to a high standard of living and high real wages, productivity becomes increasingly the central economic problem of mankind.”

Part Two consists of 14 chapters under the heading of “The Institutional Setting.” This section is a potpourri of many subjects. About half the chapters deal with national, state, and municipal laws on child labor, regulation of hours and wages for women, veterans’ legislation, social security, apprenticeship training, workmen’s compensation, and the rights of workers to organize. This is followed by a discussion of unions and collective bargaining. In 1949 the Twentieth Century Fund surveyed opinions of leading labor and management representatives on selected collective bargaining policies and practices. The results form the substance of this special section, which ties in rather awkwardly with the preceding chapters.

Employment and unemployment are considered in the 11 chapters which make up Part Three. The material is largely descriptive. It is organized under four major subjects: (1) the labor force, its size, composition, and char-

acteristics, (2) employment by age, sex, color, and industry, (3) labor turnover, and (4) unemployment trends and characteristics.

Part Four on "Wages and Earnings" contains 11 rather brief chapters, again descriptive in nature and centering around an examination of the national wage structure. Statistical data are presented for wage differentials by sex, race, industry, occupation, region, union vs. nonunion. Four of these chapters, and the best, were prepared by outside writers.

What does this volume contribute to the general literature dealing with the labor market? It can be recommended as an excellent reference work for specialists. It brings together in one volume a vast amount of statistical material that heretofore has been widely scattered. There are numerous tables in the main body of the text and in the appendix for which specialists will be grateful. For example, in one table (Table 33) major Federal labor legislation is classified by type and by the branch and level of government administering each law. One figure (Figure 44) digests the principal clauses in 100 leading trade union agreements. Another table (Table 46, Appendix) summarizes the major provisions of workmen's compensation laws in the 48 states. The tables are in general carefully prepared and some of the charts are exceptionally good.

Although the book has certain obvious merits, it is, in many respects, a disappointment. Many subjects are covered, but the treatment of each individual subject is usually too brief

to add anything to the sum total of knowledge or insight. Some of the chapters are so elementary in content as to be inferior to the treatment in many of the better survey books in labor economics. In fact some chapters appear to be merely up-to-date re-writes of widely used secondary sources.¹

The title of the book is misleading. It suggests, and certainly the size of the book would cause the reader to hope for, an exhaustive analysis of the relationship between employment and wages which in turn calls for a thorough theoretical analysis. There is little such analysis in any section of this volume. As a treatise it seems to lack a basic theme or thesis. It is burdened down with statistics compiled for statistics' sake. For example, the appendix contains 35 pages of data adapted from OASI reports on wage credits. Most of these tables are elaborately worked out in deciles. It does not seem to this reviewer that the end justifies the immense amount of time and effort required to compile such tables, which can have utility for only a handful of specialists. Further there is a tendency in many chapters to cite some statistics and then drop the subject at hand. This is not creative research.

JOHN B. PARRISH

¹ E.g., for a better balanced and more analytical discussion of wages and employment and related market subjects see *Wages*, Report VI (a), International Labour Conference, San Francisco, 1948 (Geneva: International Labour Organization, 1948), 361 pp.

Introduction to Malthus. By D. V. Glass, ed. (New York: John Wiley & Sons, Inc., 1953, pp. 205. \$2.75)

The belief that the human race is rapidly losing the power to feed itself has waxed and waned during the past hundred and fifty years. Recent war-time food shortages, plus the familiar figures of the increase in world population which grow more fearsome with every telling, have done nothing to belay that fear. This little book (74 small pages of text) is about the Reverend Mr. Malthus, whose powerful "Essay on Population," first published in 1798, set fire to a controversy which has continued until the present day. Malthus was not the first to put forward the very debatable theory that population will always tend to outstrip the means of subsistence and thus bar man's path to the perfect society, but it is with his name that this movement is joined.

The first of the essays comprised in this book (which were originally broadcast over the BBC network) is the work of Mr. H. L. Beales and deals with the historical context of Malthus's Essay; the second, by Professor David Glass, broadens its scope to examine the application of Malthusian theory during the past century; the third, by Mr. Alan Peacock, considers Malthus in the twentieth century.

To apply a general criticism to a work constructed like this is not easy. There is always something unsatisfactory about the attempts made to turn

a series of radio talks by different authors into an effective introduction to such a weighty and problematical topic. And the obvious care taken by the authors to revise their papers before publication has not lessened this feeling. Moreover there are times (on p. 22 Mr. Beales tells us that "... the main contribution of his school [Malthus's school] is that the essence of social policy is that there should be no social policy at all . . .") when one is inclined to think that this introduction misjudges Malthus and his followers. Certainly the quality of diagnosis provided by this book is not matched by the quality of its prescription, and the "broad views" offered are sometimes too general to be of any great value to the reader. Also one will regret the absence of general analysis of the development of population theory. But this is expecting all too much from a work of this kind. The authors set themselves the task of providing the briefest introduction to this topic and this they have done competently. They have provided us with a stimulating discussion and an excellent bibliography of British sources—in fact the greater part of the book is taken up by a bibliography and by reprints of Malthus's less well known "A Summary View of the Principle of Population," originally published in 1830, and his letter to Samuel Whitbread, published in 1807—all of which cannot fail to help those concerned with the doctrine and influence of the Reverend Mr. Malthus.

W. WOODRUFF

Income Stabilization for a Developing Democracy: A Study of the Politics and Economics of High Employment Without Inflation. By Max Millikan, ed. (New Haven: Yale University Press, 1953, pp. xxi, 730. \$5.00)

Fifteen well-known lawyers, political scientists, and economists, most of them affiliated with Ivy League institutions, collaborated in writing and re-writing this book. The result is a symposium, a form which sometimes brings to mind the fable of the Blind Men and the Elephant. This specimen, however, succeeds very well in keeping before the reader the over-all purpose of the book. The frequent cross-references and a summarizing chapter are most helpful in this respect; and the book, in gestation since 1946, affords many evidences of a careful concern to integrate the various chapters as well as to keep them abreast of changing circumstances.

A sharper observer than this reviewer noted that "Economists write always *sub specie temporis*." Many lament, but nobody will deny, that in our time Government bestrides the arena of economic activity like a colossus; everything it does has economic repercussions felt everywhere—even if it does nothing! And when economic welfare and economic adjustment are felt to hinge on governmental policy, political economy, as economics used to be called, assumes its ancient meaning and importance. As it was in the time of Adam Smith (*The Wealth of Nations*), so it is in this, our generation.

The short title of the book is full of

hazy words, but the subtitle offers a perfect and forthright description of the contents: *Income Stabilization* is a treatise on political economy. The authors neither defend nor deplore the incursion of giant government into economic life. They accept it as a phenomenon of the times, and undertake only (a) to shed some light on the political determinants and possible consequences of various (domestic) governmental policies, real or possible, and (b) to show how the powers of Leviathan *might* be used to "maintain high employment without inflation."

A great merit of the book is its sensibleness. The authors were aware that economic stability is only one of several goals people would like to attain, and indeed one which may not be very compatible with others. How attain, and maintain, maximum material well-being in a society which cherishes other ideals as well, without sacrificing these? The problem is akin to the "welfare problem" of making Tom better off without thereby making Dick, Harry, or both, worse off.

And there are problems within this problem. For example, is the *desideratum* of "consumer sovereignty" (mistakenly offered in the book as the solution of the welfare problem just noted) consistent with another one, a "rate of savings consistent with high employment"? Is minimum involuntary unemployment consistent with a policy calculated to nurture "private autonomous groups—namely trade unions"? And so on.

Before the backdrop of these sometimes inconsistent ideals and aspira-

tions, the authors have reduced their task to manageable proportions by assuming that some measure of price stability and stability of employment (at a high level) are good things. Most of the chapters in *Income Stabilization*, therefore, first explain and then appraise present governmental policies and procedures in the light of their significance for these two objectives. Naturally, a large part of the book is devoted to explanations and critiques of past, present, and projected monetary and fiscal policies, since these are the most conspicuous — and most controversial — engines at the government's disposal. But many readers will find other chapters equally interesting. For example, the pages which trace the evolution of the American attitude toward government intervention in economic life contain much that is thought provoking. The chapter on forecasting as a guide to policy is excellent. Another chapter is essentially a very revealing account of the political pitfalls and pressures which imperil a President's official "economic advisers." And at the beginning of the book there is found an admirably clear explanation of the concept of the national income.

Income Stabilization is a book which most people who take any interest in either economics or government will find very instructive. Not the least of its attractions is its lucidity; one need not be an etymologist or mathematician to follow the drift of the arguments therein. The authors might well have claimed, as did James Mill in the preface to his *Elements of Political Economy* (1821),

"... nothing more is necessary for understanding every part of the book than to read it with attention — such a degree of attention as persons of either sex, of ordinary understanding, are capable of bestowing."

A. STUART HALL

Collective Bargaining. By S. H. Torff
(New York: McGraw-Hill Book Company, 1953, pp. x, 317. \$5.50)

The purpose of this book, as stated by the author in the preface, is "to describe and analyze in both an objective and constructive manner the process of collective bargaining as it functions in the United States today." The book is written by a lawyer, and if not designed exclusively for lawyers, it at least is aimed directly at those whose primary occupation is the negotiation and administration of collectively bargained agreements. The book undoubtedly reflects the experience, if not of the author, at least that of the law firm with which he is associated, in negotiating collective agreements in modern industry.

Starting with three rather brief introductory chapters on the collective bargaining process, its legal status, and scope, the author moves directly into the body of his text with a discussion of the negotiation of "non-economic" issues. The seven chapters devoted to this discussion cover such subjects as union recognition clauses, union security, seniority, and management rights. The approach used is to set forth the nature of the issue involved, to present the principal arguments or contentions of employers and unions, and to describe the various possible solutions

that have been adopted in resolving these opposing viewpoints. The same general approach is followed in the next seven chapters on the negotiation of "economic" issues. These chapters cover the subjects of hours and overtime, wage structures and wage adjustment criteria, vacations, paid holidays, employee benefit plans, and so forth. Two short concluding chapters on the administration and enforcement of collective agreements cover the subjects of grievance procedure and labor arbitration.

In general the treatment is clear and concise, and fairly objective. The author has made an earnest effort to avoid "taking sides" on the merit or lack of merit of opposing views in relation to the specific issues considered, and is to be commended for the restraint shown in this respect. The entire discussion, however, is overshadowed by the heavy emphasis on the legal rights and duties of unions and employers under present labor relations law. And perhaps that is the only way contemporary collective bargaining issues can be realistically treated in

view of our legal regulations and restrictions not only on the preliminaries to collective bargaining, but on the process and content of collective bargaining as well. Nevertheless, one cannot help but regret that in a discussion of such highly controversial questions as union security, seniority, management rights, and so forth, some greater attention could not be devoted to the economics, the politics, or the sociology of these issues, rather than have them discussed almost entirely in terms of the legal framework involved.

To the academic person, the book is perhaps noteworthy in one other respect — the complete absence of all documentary footnote citations and bibliographical references.

The style is simple, and the organization logical and easy to follow. It is a book the layman can read and understand, the student can peruse with profit, and the industrial relations specialists can use as a helpful guide in resolving their day-to-day problems of negotiating and administering the collectively bargained agreement.

E. B. McNATT

